

**Marcil Lavallée**

## **Fund for Railway Accidents Involving Designated Goods**

Summary of Special Examination Report –  
2021

# Table of Contents

<b>Special Examination Opinion .....</b>	<b>1</b>
<b>About the Special Examination .....</b>	<b>3</b>
Objective .....	3
Key systems and practices examined and criteria .....	4
Period covered by the audit .....	5
Internal audit.....	5
<b>Core Recommendations for the Administrator .....</b>	<b>6</b>

# Special Examination Opinion

To the Minister of Transport (“Minister”) and to the Administrator of the Fund for Railway Accidents Involving Designated Goods

## Our opinion

In our opinion, based on the criteria established and outlined in the letter of engagement, there is reasonable assurance that during the period covered by the examination, from June 2021 to September 2021, there were no significant deficiencies identified in the Fund for Railway Accidents Involving Designated Goods’ (“FRAIDG”) systems and practices selected for examination. The FRAIDG has maintained these systems and practices in a manner that provides it with reasonable assurance that: assets are safeguarded and controlled; human, physical and financial resources are managed economically and efficiently, and the operations are carried out effectively.

## Findings that support the opinion

**Governance.** We found that the FRAIDG has key elements of a good governance framework which meets the requirements of statutory control objectives in the execution of its mandate and ensures the required stewardship, accountability, transparency and communications with stakeholders.

**Risks, internal management, performance measurement and reporting.** We found that the FRAIDG has implemented controls, systems and practices that achieve sound management and an effective balance between risk and available resources while ensuring that the mandate of the FRAIDG is fulfilled consistently and that the assets of the FRAIDG are properly safeguarded.

**Operation review.** Overall, we found that the FRAIDG has systems and practices in place to ensure efficient and effective management of its operations.

## Findings, recommendations, and responses

The next sections of this report provide an overview of the FRAIDG and more detailed information on our findings and recommendations. The Administrator agrees with all the core recommendations contained in this report and has provided detailed responses following recommendations made throughout the report.

**What the  
Administrator is  
required to do**

Under paragraph 155.92(1) of the *Canada Transportation Act* (CTA), the Administrator shall cause records and books of account to be kept in relation to the Fund as well as control and information systems and management practices, in respect of financial and management matters to be maintained in relation to the Fund. Under paragraph 155.92 of the CTA, the Administrator is required to keep or maintain, as the case may be, the records, books, systems and practices in a manner that provides reasonable assurance that the Administrator's and Deputy Administrator's powers, duties and functions are exercised and performed effectively, that the assets of the Fund are safeguarded and controlled and the financial human and physical resources used by them are managed economically and efficiently.


Under paragraph 155.94 of the CTA, the Administrator shall cause a special examination to be carried out at least once every five years in respect of the systems and practices referred to in paragraph 155.92(1)(b) to determine if they were, in the period under examination, maintained in a manner that provided reasonable assurance that the assets referred to in paragraph 155.92(2)(b) and the resources referred to in paragraph 155.92(2)(c) were managed economically and efficiently.

**What is Marcil  
Lavallée  
responsible for**

Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination, from June 2021 to September 2021, there were no significant deficiencies in the FRAIDG's systems and practices that were selected for examination.

We performed the special examination in accordance with the standards for assurance engagements established by the Chartered Professional Accountants of Canada, and accordingly we performed such tests and other procedures that we considered necessary in the circumstances.

**Signature and  
date**



Chartered Professional Accountants, Licensed Public Accountants  
Ottawa, Ontario, Canada  
December 20, 2021

## About the Special Examination

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Canada Handbook—Assurance.

We obtained management's confirmation that the findings reported in this report are factually based.

### Objective

Under Part 3, section 155.94(1) of the *Canada Transportation Act* (CTA), the Administrator must arrange for a special examination to be carried out on the Fund for Railway Accidents Involving Designated Goods once every five years, and at any additional times that the Governor in Council or Minister may require. Special examinations are a form of performance audit where the scope is set by the Minister and the Administrator.

The auditor provides an opinion on the FRAIDG's systems and practices examined. Special examinations answer the question: Do the FRAIDG's systems and practices provide reasonable assurance that assets are safeguarded and controlled, that human, physical, and financial resources are managed economically and efficiently, and that the operations are carried out efficiently?

A significant deficiency is reported when there is a major weakness in the FRAIDG's key systems and practices that could prevent it from having reasonable assurance that assets are safeguarded and controlled, that human, physical, and financial resources are managed efficiently and economically, and that the operations are carried out effectively and performed effectively and efficiently. The opinion for this special examination is found on page 1 of this report.

## Key systems and practices examined and criteria

At the start of this special examination, we presented an audit plan (included in the engagement letter) to the Minister’s delegate and to the Administrator. The plan identified the systems and practices and the related criteria that we considered essential to providing the Minister and the Administrator with reasonable assurance that assets are safeguarded and monitored, that resources are managed economically and efficiently, and that operations are carried out effectively. These are the systems, practices and criteria that we used for the examination.

These criteria were selected for this examination in consultation with the Minister’s delegate and the Administrator. They were based on our experience and knowledge of the subject matter. Management reviewed and accepted the suitability of the criteria used in the special examination.

Key Systems and Practices	Criteria	Systems and practices selected for examination
Governance	In fulfilling the FRAIDG’s mission, mandate and operations, management has established an appropriate management/governance framework (i.e. delegation of authority, communication, hiring practices and policies, monitoring activities, etc.) that meets the requirements of the statutory control objectives in the execution of the mandate and ensures the required stewardship, accountability and communication with its stakeholders.	Management has established an adequate “tone from the top” whereby it has implemented a corporate philosophy and culture that is based on a strong internal control environment and ethical values [transparency, honesty, fairness, compliance with laws and regulations, and integrity (hiring and human resource policies, code of conduct, etc.)].
Risks, Internal Management, Performance Measurement and Reporting	Controls and systems implemented are operating effectively to achieve sound management and an effective balance between risks and available resources, while ensuring that the mandate of the FRAIDG is fulfilled consistently and that the assets are properly safeguarded (i.e. payments are issued only on legitimate claims, etc.) The FRAIDG also has performance measures for the achievement of its mandate and delivers accountability reports to its stakeholders as required; more specifically, the annual reporting to Parliament (Annual Report) is a complete and accurate reflection of the performance and activities of the FRAIDG for the year.	<p>We will examine that:</p> <ul style="list-style-type: none"> <li>▪ Risks and challenges that affect or could potentially affect the FRAIDG are identified and addressed, including succession planning given the specific nature of the knowledge and skills required for the execution of the mandate;</li> <li>▪ Stakeholders are provided reports in a timely manner regarding the activities of the FRAIDG, as per legislation;</li> <li>▪ Measures have been implemented to ensure compliance with all legislative requirements under which the FRAIDG is subject to including: <ul style="list-style-type: none"> <li>○ The <i>Canada Transportation Act</i>;</li> <li>○ The <i>Access to Information Act</i>;</li> <li>○ The <i>Privacy Act</i>.</li> </ul> </li> <li>▪ The financial management (operations / administration / accounting) systems and practices of the FRAIDG provide assurance that it is operating effectively, efficiently and economically in its use of available resources.</li> </ul>

Key Systems and Practices	Criteria	Systems and practices selected for examination
Operations Review	<p>The FRAIDG has systems and practices to ensure efficient and effective management of its operations, which includes day-to-day operation and ensuring it is recovering all relevant levies from railway companies as defined/required by the CTA. Eventually, the FRAIDG is also implementing proper processes to ensure it can respond and process claims that may present themselves in the future.</p>	<p>We will examine that:</p> <ul style="list-style-type: none"> <li>▪ The FRAIDG remains independent from all stakeholders in compliance with its governing statutes;</li> <li>▪ Operations are managed within an effective and efficient framework allowing economic use of resources;</li> <li>▪ Stakeholders are informed of the requirements, obligations, limitations and role of the Administrator of the FRAIDG;</li> <li>▪ FRAIDG has implemented processes to validate, as is reasonably possible, the amount of levies collected from railway companies;</li> <li>▪ The eventual claims process review and processing, which includes the investigation, assessment, payment of a claim and cost recovery action is properly designed and defined.</li> </ul>

### Period covered by the audit

The special examination covered the systems and practices that were in place between June 2021 to September 2021. However, to gain a more complete understanding of the main systems and practices, we also examined certain matters that preceded the start date of the special examination and that were in place between June 2021 and September 2021.

### Internal audit

In carrying out the special examination, we did not rely on any internal audits.

## Core Recommendations for the Administrator

Recommendation	Response
<p><b>CORE RECOMMENDATIONS</b></p> <p><u>Core Recommendation # 1:</u> We recommend that FRAIDG review its current procurement policy to provide for varying processes based on the cost of the purchases and/or based on the nature of the procured goods or services for example.</p>	<p><b>FRAIDG’s response</b></p> <p>The Administrator agrees with Core Recommendation #1.</p>
<p><u>Core Recommendation # 2:</u> Since the Administrator requires timely and detailed financial reporting for effective management of FRAIDG’s resources, an internal accounting system adapted to FRAIDG’s needs is of utmost importance. TC also requires financial information for its own financial reporting obligations. We recommend that TC and FRAIDG review the needs and obligations of each organization and work together towards tabling a plan that would eliminate inefficiencies and if required, modify the MOU.</p>	<p>The Administrator notes Core Recommendation #2 and agrees to explore with TC whether further efficiencies can be gained with respect to the coexistence of the two financial systems. However, the Administrator also stresses the fact that the two financial systems are different for a reason – they fulfil different needs and goals. In other words, they are more complementary than duplicative to a large extent.</p>
<p><u>Core Recommendation # 3:</u> The Administrator should consider putting in place an annual budgeting practice whereby an operating budget would be prepared. Once completed, this budget would be approved by the Administrator. We recommend that the Administrator analyse this issue and consider the advantages and disadvantages of an annual budget.</p>	<p>The Administrator notes Core Recommendation #3 and agrees to consider whether implementing an annual operating budgeting practice will help improve the strategic business planning process.</p>



<p><u>Core Recommendation # 4:</u> Regarding the completeness of levies, we recommend that the MOU with TC be amended to include a description of the process and procedures in place at TC to ensure that levies are received in time and/or complete. The Administrator should also request and attestation from Transport Canada establishing the reasonable validation and completeness of the quarterly reports received. FRAIDG should put in place procedures in order to validate the reports received from TC.</p>	<p>The Administrator agrees with Core Recommendation #4 and has already initiated discussions with TC in this respect.</p>
<p><u>Core Recommendation # 5:</u> To ensure the Fund has adequate processes, procedures, and resources necessary to handle an influx of claims in the event of a crude-by-rail accident, we recommend that the FRAIDG continue its efforts to complete the full readiness of the Fund, in a reasonable timely manner.</p>	<p>The Administrator agrees with Core Recommendation #5</p>
<p><u>Core Recommendation # 6:</u> To ensure that all components of the Claim Management Process are in place and perform as intended, we recommend that a full simulation scenario be performed once the readiness process is complete. A full readiness scenario implies the simulation of small and/or large claims resulting from accidents.</p>	<p>The Administrator agrees with Core Recommendation #6</p>