

# PRIVY COUNCIL OFFICE

## Statement of Management Responsibility including Internal Control Over Financial Reporting

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Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2012, and all information contained in these statements rests with the management of the Privy Council Office. These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Privy Council Office's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the Privy Council Office's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Privy Council Office and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2012 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of the Privy Council Office's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Privy Council Office's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Clerk of the Privy Council and Secretary to the Cabinet.

These statements have not been subject to an external audit or review but have been reviewed by the Privy Council Office Audit Committee.

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Wayne G. Wouters  
Clerk of the Privy Council and Secretary to the Cabinet

Ottawa, Canada  
August 31, 2012

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Michelle Doucet  
Assistant Deputy Minister Corporate Services  
Chief Financial Officer

# PRIVY COUNCIL OFFICE

## Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)

2012

2011

### Liabilities

Accounts payable and accrued liabilities (note 4)	16,529	18,541
Vacation pay and compensatory leave	5,738	5,955
Employee future benefits (note 5)	10,921	19,395
<b>Total net liabilities</b>	<b>33,188</b>	<b>43,891</b>

### Assets

#### Financial assets

Due from Consolidated Revenue Fund	11,820	16,825
Accounts receivable and advances (note 6)	4,157	1,724

<b>Total net financial assets</b>	<b>15,977</b>	<b>18,549</b>
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<b>Departmental net debt</b>	<b>17,211</b>	<b>25,342</b>
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#### Non-financial assets

Prepaid expenses	501	562
Tangible capital assets (note 7)	5,830	8,882

<b>Total non-financial assets</b>	<b>6,331</b>	<b>9,444</b>
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<b>Departmental net financial position</b>	<b>(10,880)</b>	<b>(15,898)</b>
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Contractual obligations (note 8)

The accompanying notes form an integral part of these financial statements.

Wayne G. Wouters  
Clerk of the Privy Council and Secretary to the Cabinet

Ottawa, Canada  
August 31, 2012

Michelle Doucet  
Assistant Deputy Minister Corporate Services  
Chief Financial Officer

# PRIVY COUNCIL OFFICE

## Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31

	Planned Results 2012	2012	Restated (note 13) 2011
(in thousands of dollars)			
<b>Expenses</b>			
Prime Minister and Portfolio Ministers Support and Advice	66,575	<b>67,709</b>	72,106
Cabinet and Cabinet Committees' Advice and Support	17,552	<b>18,142</b>	18,180
Public Service Leadership and Direction	3,688	<b>4,341</b>	4,232
Commissions of Inquiry	291	<b>10,786</b>	12,983
Internal Services	67,938	<b>68,134</b>	69,490
<b>Total Expenses</b>	156,044	<b>169,112</b>	176,991
<b>Revenues</b>			
Miscellaneous	52	<b>48</b>	62
Internal Services Support	-	<b>73</b>	-
Dividends - Canada Lands Company Limited (note 12)	9,000	-	8,500
Revenues earned on behalf of Government	(9,003)	<b>(5)</b>	(8,505)
<b>Total Revenues</b>	49	<b>116</b>	57
<b>Net cost from continuing operations</b>	155,995	<b>168,996</b>	176,934
<b>Transferred operations (note 10)</b>			
Expenses	5,568	<b>2,734</b>	5,824
<b>Net cost of transferred operations</b>	5,568	<b>2,734</b>	5,824
<b>Net cost of operations before government funding and transfers</b>	161,563	<b>171,730</b>	182,758
<b>Government funding and transfers</b>			
Net cash provided by Government	143,102	<b>161,980</b>	158,059
Change in due from the Consolidated Revenue Fund	(882)	<b>(5,005)</b>	1,081
Services provided without charge by other government departments (note 9)	21,030	<b>21,798</b>	21,121
Transfer of assets and liabilities from (to) other government departments (note 10)	-	<b>(2,014)</b>	-
Transfer of tangible capital assets from (to) other government departments	-	<b>(11)</b>	-
<b>Net cost of operations after government funding and transfers</b>	(1,687)	<b>(5,018)</b>	2,497
<b>Departmental net financial position - Beginning of year</b>	(15,198)	<b>(15,898)</b>	(13,401)
<b>Departmental net financial position - End of year</b>	(13,511)	<b>(10,880)</b>	(15,898)

Segmented information (note 11)

The accompanying notes form an integral part of these financial statements.

# PRIVY COUNCIL OFFICE

## Statement of Change in Departmental Net Debt (Unaudited)

For the year ended March 31

	Planned Results 2012	2012	2011
(in thousands of dollars)			
<b>Net cost of operations after government funding and transfers</b>	(1,687)	(5,018)	2,497
<b>Change due to tangible capital assets</b> (note 7)			
Acquisition of tangible capital assets	1,506	1,265	2,226
Amortization of tangible capital assets	(2,417)	(1,919)	(2,487)
Proceeds from disposal of tangible capital assets	-	(47)	(62)
Net (loss) or gain on disposal of tangible capital assets	(45)	(49)	35
Tangible capital asset adjustments	60	(83)	(118)
Transfer to other government departments	-	(2,208)	-
<b>Total change due to tangible capital assets</b>	(896)	(3,041)	(406)
<b>Change due to prepaid expenses</b>	33	(61)	(190)
<b>Transfer to other government departments - prepaid expenses</b>	-	(11)	-
<b>Net increase(decrease) in departmental net debt</b>	(2,550)	(8,131)	1,901
<b>Departmental net debt - Beginning of year</b>	24,794	25,342	23,441
<b>Departmental net debt - End of year</b>	22,244	17,211	25,342

The accompanying notes form an integral part of these financial statements.

# PRIVY COUNCIL OFFICE

## Statement of Cash Flow (Unaudited)

For the year ended March 31

(in thousands of dollars)	2012	2011
<b>Operating activities</b>		
Net cost of operations before government funding and transfers	171,730	182,758
<b>Non-cash items:</b>		
Amortization of tangible capital assets (note 7)	(1,919)	(2,487)
Gain (loss) on disposal of tangible capital assets	(49)	35
Tangible capital asset adjustments (note 7)	(83)	(118)
Services provided without charge by other government departments (note 9)	(21,798)	(21,121)
<b>Variations in Statement of Financial Position:</b>		
Increase in accounts receivable and advances	2,433	147
Decrease in prepaid expenses	(61)	(190)
Transfer of prepaid expenses to other government departments (note 10)	11	-
Decrease (increase) in accounts payable and accrued liabilities	2,012	(1,210)
Decrease (increase) in vacation pay and compensatory leave	217	(411)
Decrease (increase) in employee future benefits	8,474	(1,508)
Transfer of liabilities to other government departments (note 10)	(205)	-
<b>Cash used in operating activities</b>	<b>160,762</b>	<b>155,895</b>
<b>Capital investing activities</b>		
Acquisitions of tangible capital assets (note 7)	1,265	2,226
Proceeds from disposal of tangible capital assets	(47)	(62)
<b>Cash used in capital investing activities</b>	<b>1,218</b>	<b>2,164</b>
<b>Net cash provided by Government of Canada</b>	<b>161,980</b>	<b>158,059</b>

The accompanying notes form an integral part of these financial statements.

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

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### 1. Authority and objectives

The Privy Council Office is a division of the Public Service of Canada as set out in column 1 of Schedule I.1 of the *Financial Administration Act* and reports to Parliament through the Prime Minister.

The Privy Council Office reports directly to the Prime Minister and is headed by the Clerk of the Privy Council Office and Secretary to the Cabinet. The Clerk is also the Head of the Public Service. The mandate of the Privy Council Office is to serve Canada and Canadians by providing the best non-partisan advice and support to the Prime Minister, ministers within the Prime Minister's portfolio and Cabinet. Privy Council Office's work requires close and continuous contact with other federal departments and agencies to support their ability to work effectively and to ensure overall consultation and coordination.

Commissions of Inquiry established under the Inquiries Act are designated as departments under the *Financial Administration Act* and the Prime Minister is designated as the "appropriate Minister" under that same Act. Privy Council Office provides administrative and financial management support to Commissions of Inquiry. In 2011-12, Privy Council Office provided support to the Commission of Inquiry into the Decline of Sockeye Salmon in the Fraser River.

To achieve its strategic outcome and to deliver results for Canadians, the Privy Council Office articulates its plans and priorities based on core program activities included below.

#### *1.1 Prime Minister and Portfolio Ministers Support and Advice*

The Privy Council Office provides advice and support to the Prime Minister and portfolio ministers on the full range of issues and policies, including: foreign affairs, national security and defence, the economy, intergovernmental relations, the environment, appointments, constitutional responsibilities, the structure of government, machinery changes, legal issues and social, economic and regional development. As part of these activities, Privy Council Office analysts work closely with other government departments and agencies to advance the Government's priorities and to gather, understand and synthesize information. They also analyze a wide variety of documents and reports, consult with provinces and territories and with stakeholders, and provide communications advice and support.

This program activity also captures the budgets of the Prime Minister's Office and the offices of portfolio ministers. These efforts ensure that the Prime Minister and portfolio ministers are supported in carrying out their responsibilities to Canadians.

#### *1.2 Cabinet and Cabinet Committees' Advice and Support*

This program activity supports the proper functioning of Cabinet and Cabinet committees and facilitates policy integration. As part of this work, the Privy Council Office consults with departments and agencies, performs a challenge function in the policy development process, briefs and prepares briefing materials for the Prime Minister, portfolio ministers and the Cabinet and distributes agendas and Cabinet documents. The Privy Council Office also provides support for policy integration, by helping to ensure that departmental proposals take into account the full range of issues related to implementation, including, for example, issues linked to communications, gender, parliamentary affairs and intergovernmental relations. These coordinating and horizontal oversight roles support the proper functioning of Cabinet and Cabinet committees, the integrity of Cabinet decision-making and, ultimately, the implementation of the Government's agenda by federal departments and agencies.

#### *1.3 Public Service Leadership and Direction*

The Privy Council Office sets strategic direction for the Public Service of Canada and provides advice and support on the management of its senior personnel, with the goal of fostering high-performing and accountable organizations that have the talent, leadership, capacity and management frameworks to deliver on the Government's agenda, now and into the future. This responsibility includes providing central direction and coordination to the government-wide Public Service Renewal agenda. Other activities include analysis and management of the challenges facing the leadership cadre, such as changing demographics, succession planning, performance management and leadership development.

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

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### *1.4 Commissions of Inquiry*

The Privy Council Office provides commissions of inquiry with financial and administrative support. For example, when a commission is created, the Privy Council Office can initiate arrangements for accommodation, furnishings and equipment. The Privy Council Office can also provide ongoing financial and administrative support in the following areas: staffing, acquisition services, contracting, information on the Internet, translation, security and systems support.

### *1.5 Internal Services*

The Privy Council office administers internal services in support of program activities and other corporate obligations. Internal services include management and oversight services, legal services, human resources management services, financial management services, information management services, information technology services, real property services, material services, acquisition services, corporate security, and travel and other administrative services.

## 2. Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

### *(a) Parliamentary authorities*

The Privy Council Office is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Privy Council Office do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2011-12 Report on Plans and Priorities.

The future-oriented financial statements for 2011-2012 have been restated to reflect the revenue net of non-respendable amounts. This restatement resulted in a \$9,003,000 increase in net costs of operations before government funding and transfers. In addition, the future-oriented financial statements have also been reclassified to conform to the current year presentation.

### *(b) Net Cash Provided by Government*

The Privy Council Office operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Privy Council Office is deposited to the CRF, and all cash disbursements made by the Privy Council Office are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements, including transactions between departments of the Government.

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

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### 2. Summary of significant accounting policies (continued)

#### *(c) Due from or to the CRF*

Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Privy Council Office is entitled to draw from the CRF without further authorities to discharge its liabilities.

#### *(d) Revenues*

Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.

Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

Revenues that are non-respendable are not available to discharge the Privy Council Office's liabilities. While the Clerk of the Privy Council and Secretary to the Cabinet is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the Privy Council Office's gross revenues

#### *(e) Expenses*

Expenses are recorded on the accrual basis:

- ✓ Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- ✓ Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- ✓ Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, legal services and workers' compensation are recorded as operating expenses at their estimated cost.

#### *(f) Employee future benefits*

- ✓ Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. The Privy Council Office's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Privy Council Office's responsibility with regard to the Plan is limited to its contribution. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- ✓ Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

#### *(g) Accounts receivables*

Accounts receivables are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.



# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 2. Summary of significant accounting policies (continued)

*(h) Contingent liabilities*

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

*(i) Tangible capital assets*

Tangible capital assets having an initial cost of \$5,000 or more are recorded at their acquisition cost. The Privy Council Office does not capitalize intangibles assets, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian reserves and museum collections. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization Period
Machinery and equipment	5 to 15 years
Informatics hardware	3 to 5 years
Informatics software	3 to 5 years
Other equipment	10 to 15 years
Motor vehicles	3 to 10 years

Work in progress are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

*(j) Measurement uncertainty*

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the allowance of doubtful accounts, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 3. Parliamentary authorities

The Privy Council Office receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the Privy Council Office has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

*(a) Reconciliation of net cost of operations to current year authorities used* Restated  
(Note 13)

(in thousands of dollars)	2012	2011
Net cost of operations before government funding and transfers	171,730	182,758
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
Amortization of tangible capital assets (note 7)	(1,919)	(2,487)
Gain (loss) on disposal of tangible capital assets	(49)	35
Services provided without charge by other government departments (note 9)	(21,798)	(21,121)
Prepaid expenses previously charged to appropriation	(932)	(1,204)
(Increase) decrease in vacation pay and compensatory leave	168	(411)
(Increase) decrease in employee future benefits	8,318	(1,508)
(Increase) decrease in accrued liabilities	(3,105)	-
Refund of prior years' expenditures	841	785
Tangible capital asset adjustments (note 7)	83	(118)
Other	(7)	24
	(18,400)	(26,005)

*Adjustments for items not affecting net cost of operations but affecting authorities:*

Acquisition of tangible capital assets (note 7)	1,265	2,226
Proceeds from disposal of tangible capital assets	(47)	(62)
Prepaid expenses	882	1,014
	2,100	3,178

<b>Current year authorities used</b>	<b>155,430</b>	<b>159,931</b>
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*(b) Authorities provided and used*

(in thousands of dollars)	2012	2011
<b>Authorities provided:</b>		
Vote -Operating expenditures	150,694	151,602
Statutory amounts	17,266	16,624
<b>Less:</b>		
Authorities available for future years	(49)	(63)
Lapsed: Operating	(12,481)	(8,232)
<b>Current year authorities used</b>	<b>155,430</b>	<b>159,931</b>

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 4. Accounts payable and accrued liabilities

The following table presents details of the Privy Council Office's accounts payable and accrued liabilities:

(in thousands of dollars)	2012	2011
Accounts payable - External parties	10,113	13,909
Accounts payable - Other government departments and agencies	2,649	3,359
<b>Total accounts payable</b>	<b>12,762</b>	<b>17,268</b>
Accrued liabilities	3,604	500
Other liabilities	163	773
<b>Total accounts payable and accrued liabilities</b>	<b>16,529</b>	<b>18,541</b>

In Canada's Economic Action Plan 2012, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, the Privy Council Office has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$3,404,000 as part of accrued liabilities to reflect the estimated workforce adjustment costs.

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 5. Employee future benefits

#### (a) Pension benefits

The Privy Council Office's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the Privy Council Office contribute to the cost of the Plan. The 2011-12 expense amounts to \$15,082,259 (\$14,543,811 in 2010-11), which represents approximately 1.8 times (1.9 times in 2010-11) the contributions by employees.

The Privy Council Office's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

#### (b) Severance benefits

The Privy Council Office provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

(in thousands of dollars)	2012	2011
<b>Accrued benefit obligation - Beginning of year</b>	<b>19,395</b>	17,887
Transferred to other government department, effective November 15, 2011 (note 10)	(156)	-
Subtotal	<b>19,239</b>	17,887
Expense for the year	<b>1,309</b>	3,008
Benefits paid during the year	<b>(9,627)</b>	(1,500)
<b>Accrued benefit obligation - End of year</b>	<b>10,921</b>	19,395

### 6. Accounts receivable and advances

The following table presents details of the Privy Council Office's accounts receivable and advances balances:

(in thousands of dollars)	2012	2011
Receivables - Other government departments and agencies	<b>3,773</b>	1,109
Receivables - External parties	<b>369</b>	652
Employee advances	<b>34</b>	27
Subtotal	<b>4,176</b>	1,788
Allowance for doubtful accounts on receivables from external parties	<b>19</b>	64
<b>Net accounts receivable</b>	<b>4,157</b>	1,724

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 7. Tangible capital assets

(in thousands of dollars)						Cost					Accumulated Amortization					Net Book Value	
Cost	Opening			Disposals	Closing	Opening			Disposals	Closing	Opening			Disposals	Closing	2012	2011
(in thousands of dollars)	Balance	Acquisitions	Adjustments	and Write-Offs	Balance	Balance	Amortization	Adjustments	and Write-Offs	Balance	Balance	Amortization	Adjustments	and Write-Offs	Balance		
Machinery and equipment	73	-	-	-	73	29	6	-	-	35	38	44					
Informatics hardware	12,030	243	(4,626)	(709)	6,938	10,629	490	(3,501)	(708)	6,910	28	1,401					
Informatics software	7,025	83	829	-	7,937	4,950	648	(134)	-	5,464	2,473	2,075					
Other equipment	9,475	634	(2,159)	(216)	7,734	5,255	691	(1,009)	(133)	4,804	2,930	4,220					
Motor vehicles	492	108	14	(119)	495	282	84	25	(107)	284	211	210					
Work in progress - software	764	197	(811)	-	150	-	-	-	-	-	150	764					
Work in progress - other	168	-	(168)	-	-	-	-	-	-	-	-	168					
	30,027	1,265	(6,921)	(1,044)	23,327	21,145	1,919	(4,619)	(948)	17,497	5,830	8,882					

#### NOTES:

Net adjustment of \$2,302,000 is mainly due to the transfer of capital assets to other departments and some payable at year end were capitalized in 2011 and required a reallocation in 2012.

Adjustments of work in progress represent assets that were put into use in the year and have been transferred to the other capital asset classes as applicable.

Effective November 15, 2011, the Privy Council Office transferred capital assets with a net book value of \$2,208,000. This transfer is included in the adjustment columns (refer to note 10 for further detail on the transfer).

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 8. Contractual obligations

The nature of the Privy Council Office's activities can result in some large multi-year contracts and obligations whereby the Privy Council Office will be obligated to make future payments in order to carry out its transfer payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2013	2014	2015	2016	2017 and thereafter	Total
Transport and telecommunications	734	97	48	48	53	980
Information	1,845	1,109	-	-	-	2,954
Professional and special services	4,972	206	89	89	-	5,356
Rental	1,051	577	420	377	40	2,465
Purchased repair and maintenance	291	-	-	-	-	291
Utilities, materials and equipment	43	-	-	-	-	43
Acquisition of machinery and equipment	44	-	-	-	-	44
Other	41	-	-	-	-	41
<b>Total</b>	<b>9,021</b>	<b>1,989</b>	<b>557</b>	<b>514</b>	<b>93</b>	<b>12,174</b>

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 9. Related party transactions

The Privy Council Office is related as a result of common ownership to all government departments, agencies, and Crown corporations. The Privy Council Office enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, the Privy Council Office has an agreement with the Security and Intelligence Review Committee and the Public Appointments Commission Secretariat related to the provision of finance and administration services which is included in revenues of the section b). During the year, the Privy Council Office received common services which were obtained without charge from other government departments as disclosed below:

#### a) Common services provided without charge by other government departments

During the year, the Privy Council Office received services without charge from certain common service organizations, related to accommodation, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services provided without charge have been recorded in the Privy Council Office's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2012	2011
Accommodation	13,103	12,704
Employer's contribution to the health and dental insurance plans	8,694	8,416
Worker's compensation coverage	1	1
<b>Total</b>	<b>21,798</b>	<b>21,121</b>

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada are not included in the Privy Council Office's Statement of Operations and Departmental Net Financial Position.

#### b) Other transactions with related parties

(in thousands of dollars)	2012	2011
Revenues - Other Government departments and agencies	73	-
Expenses - Other Government departments and agencies	29,540	32,138

Expenses disclosed in (b) exclude common services provided without charges which are already disclosed in (a).

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 10. Transfers to other government departments

Effective November 15, 2011, the Privy Council Office transferred responsibility for a portion of the information technologies activities to Shared Services Canada in accordance with the Order in Council P.C. 2011-1297, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, the Privy Council Office transferred the following assets and liabilities related to part of the information technologies activities to Shared Services Canada on November 15, 2011:

(in thousands of dollars)	2012
<b>Assets:</b>	
Prepaid Expenses (net book value)	11
Tangible capital assets (net book value) (note 7)	2,208
Total assets transferred	2,219
<b>Liabilities:</b>	
Vacation pay and compensatory leave	49
Employee future benefits (note 5)	156
Total liabilities transferred	205
<b>Adjustments to the departmental net financial position</b>	<b>2,014</b>

In addition, the 2011 comparative figures have been reclassified on the Statement of Operations and Departmental Net Financial Position to present the expenses of the transferred operations. From April 1, 2011 to November 14, 2011 expenses amount related to transfer is \$2,734,000 (\$5,824,000 for fiscal year 2010-11 and \$5,568,000 for 2011-12 planned results).

From November 15, 2011 to March 31, 2012, the Privy Council Office continued to administer the transferred activities on behalf of Shared Services Canada. The administered activities incurred expenses amounted to \$2,862,675, for the year. These expenses are not recorded in these financial statements.



# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 11. Segmented information

Presentation by segment is based on the Privy Council Office's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)	Prime Minister and Portfolio Ministers Support and Advice	Cabinet and Cabinet Committees' Advice and Support	Public Service Leadership and Direction	Commissions of Inquiry	Internal Services	2012	2011
							Restated (note 13)
<b>Expenses</b>							
Salaries and employee benefits	60,328	16,244	3,883	1,132	39,843	121,430	124,128
Professional and special services	2,714	1,191	366	6,333	5,911	16,515	17,787
Accommodation	-	-	-	385	13,264	13,649	13,205
Transportation and telecommunications	2,417	371	57	64	1,238	4,147	5,808
Acquisition of machinery and equipment	220	51	-	11	2,699	2,981	4,443
Purchased repair and maintenance	41	6	-	1	1,736	1,784	1,875
Information	1,286	140	6	60	97	1,589	2,272
Amortization of tangible capital assets	-	-	-	-	1,378	1,378	1,487
Rentals	413	115	25	123	669	1,345	1,736
Utilities, materials and supplies	205	23	4	16	719	967	1,216
Transfer payments	-	-	-	2,660	-	2,660	1,857
Other	85	1	-	1	580	667	1,177
<b>Total Expenses</b>	<b>67,709</b>	<b>18,142</b>	<b>4,341</b>	<b>10,786</b>	<b>68,134</b>	<b>169,112</b>	<b>176,991</b>
<b>Revenues</b>							
Miscellaneous	-	-	-	-	48	48	62
Internal Support Services	-	-	-	-	73	73	-
Dividends - Canada Lands Company Limited (note 12)	-	-	-	-	-	-	8,500
Revenues earned on behalf of Government	-	-	-	-	(5)	(5)	(8,505)
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116</b>	<b>116</b>	<b>57</b>
<b>Net cost from continuing operations</b>	<b>67,709</b>	<b>18,142</b>	<b>4,341</b>	<b>10,786</b>	<b>68,018</b>	<b>168,996</b>	<b>176,934</b>

### 12. Additional information on Privy Council Office's revenues

The nature of the Privy Council Office's activity does not generate any significant revenues and is mainly generated from gain of disposal of assets, fees related to Access to Information and internal Support Services.

However on August 6, 2010, the Leader of the Government in the House of Commons was appointed as the appropriate Minister for the Canada Lands Company Limited. The Canada Lands Company Limited is a federal crown corporation partially funded by government authority and pay yearly dividends to the federal government. Since the Leader of the Government in the House of Commons is a Minister within the Prime Minister's Portfolio, the Canada Lands Company Limited dividend payments are submitted to the Privy Council Office even though these dividend revenues are not generated from departmental activities.

On May 18, 2011 order in Council P.C. 2011-0585 designated the Minister of Public Works and Government Services as the appropriate Minister for the Canada Lands Company Limited. As a result, the Privy Council Office's revenues do not include dividend revenues for 2011-12.

# PRIVY COUNCIL OFFICE

## Notes to the Financial Statements (Unaudited)

For the year ended March 31

### 13. Accounting changes

During 2011, amendments were made to Treasury Board Accounting Standard 1.2—Departmental and Agency Financial Statements to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to the Privy Council Office's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

Revenues are presented net of non-respendable amounts in the Statement of Operations and Departmental Net Financial Position. The effect of the change was to increase the net cost of operations after government funding and transfers by \$5,000 for 2012 (\$8,505,000 for 2011).

Net debt (calculated as liabilities less financial assets) is now presented in the Statement of Financial Position. Accompanying this change, the Privy Council Office now presents a Statement of Change in Net Debt and no longer presents a Statement of Equity.

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers". In previous years, the Privy Council Office recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to increase the net cost of operations after government funding and transfers by \$5,000 for 2012 (\$8,505,000 for 2011).

(in thousands of dollars)	2011 As previously stated	Effect of change	2011 Restated
<b>Statement of Operations and Departmental Net Financial Position</b>			
Revenues	8,562	(8,505)	57
<b>Government funding and transfers</b>			
Net cash provided by Government	-	158,059	158,059
Change in due from Consolidated Revenue Fund	-	1,081	1,081
Services provided without charge by other government departments	-	21,121	21,121
Transfer of assets and liabilities from (to) other government departments	-	-	-

### 14. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

# PRIVY COUNCIL OFFICE

## Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Privy Council Office for Fiscal Year 2011-12

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### Note to the Reader

With the new Treasury Board Policy on Internal Control, effective April 1, 2009, departments are now required to demonstrate the measures they are taking to maintain an effective system of Internal Control over Financial Reporting (ICFR).

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plans to address any necessary adjustments, and to attach to their Statements of Management Responsibility a summary of their assessment results and action plan. This policy requirement was phased-in over a three-year period. As a third wave department, the Privy Council Office (PCO) is presenting in its Statement of Management Responsibility Including Internal Control over Financial Reporting its first summary of its assessment results and action plan.

An effective system of ICFR aims to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- Applicable laws, regulations and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

The PCO's financial statements have not been subject to an external audit but were reviewed by the Departmental Audit Committee.

## 1. Introduction

This document is attached to PCO's Statement of Management Responsibility Including Internal Control Over Financial Reporting for the fiscal-year 2011-2012. This document provides summary information on the measures taken by PCO to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by PCO as of March 31, 2012. This document includes progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the PCO.

# PRIVY COUNCIL OFFICE

## Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Privy Council Office for Fiscal Year 2011-12

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### 1.1 Authority, Mandate and Program Activities

PCO provides non-partisan, public service support to the Prime Minister and to the Cabinet and its decision-making structures. Led by the Clerk of the Privy Council, PCO helps the Government to implement its vision and to respond effectively and quickly to issues facing the Government and the country. PCO has three main roles:

1. Advice to the Prime Minister: PCO brings together quality, objective policy advice and information to support the Prime Minister, the ministers within the Prime Minister's portfolio and the Cabinet;
2. Secretariat to the Cabinet: PCO facilitates the smooth, efficient and effective functioning of Cabinet and the Government of Canada on a day-to-day basis; and,
3. Public Service Leadership: PCO supports the development and maintenance of a high quality Public Service that meets the highest standards of accountability, transparency and efficiency, one that is able to deliver the best advice to government and excellent services to Canadians.

For more information on PCO's main roles, please visit PCO's website <http://www.pco.gc.ca/>. Further information on PCO's program activities can be located in Part II of the Main Estimates.

Detailed information on PCO's authority, mandate and program activities can be found in its Departmental Performance Report and Report on Plans and Priorities.

### 1.2 Financial Highlights

PCO's financial statements have not been subject to an external audit but were reviewed by the Departmental Audit Committee. PCO's financial statements are a component of the annual Departmental Performance Report which can be found at

<http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=dpr-rmr/2011-2012/pco-bcp/index-eng.htm>.

Information can also be found in the Public Accounts of Canada. Highlights of the 2011-2012 fiscal year are as follows:

- Total expenses are \$169,112,000
- Salary and employee benefits expenses are \$121,430,000
- Total revenues for PCO are \$116,000
- Net book value of total assets (financial and non-financial assets) is \$22,308,000
- PCO has total liabilities of \$33,188,000

The financial results are consolidated into the departmental financial statements. PCO utilized a financial system called SAP in fiscal year 2011-2012. This system interfaced with PCO's salary management system called Planning and Budget Human Capital (PBHC).

# PRIVY COUNCIL OFFICE

## Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Privy Council Office for Fiscal Year 2011-12

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### 1.3 Service arrangements relevant to the financial statements

PCO relies on other organizations for the processing of certain transactions that are recorded in its financial statements, and relies on these service providers to ensure an adequate system of ICFR is maintained over services provided to the Department.

#### 1.3.1 Reliance on other government service providers

##### ***Common arrangements:***

Government-wide pay and Receiver General central systems administered by Public Works and Government Services Canada (PWGSC). The central systems consist of six individual systems: Standard Payment System (SPS), Government Banking System (GBS), Regional Pay System (RPS), Payroll System-General Ledger (PS-GL), Receiver General-General Ledger (RG-GL), and the Central Financial Management Reporting System (CFMRS);

Accommodations provided without charge from PWGSC;

Various other services without charge from Treasury Board Secretariat (TBS), Human Resources and Skills Development Canada (HRSDC), and Department of Justice (DOJ);

Information from TBS used to calculate various accruals and allowances, such as the accrued severance liability; and,

Information from DOJ for establishing the contingent liability note to the financial statements and for inclusion in the public accounts.

##### ***Specific arrangements:***

Treasury Board of Canada Secretariat (TBS) provides operational support to the Department in the form of the management of PCO's financial accounting system.

#### 1.3.2 Secretariat services upon which other departments rely

PCO provides corporate administrative services to the Public Appointments Commission Secretariat (PACS) and the Security Intelligence Review Committee (SIRC) which include the full suite of financial services including the preparation of financial statements.

# PRIVY COUNCIL OFFICE

## Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Privy Council Office for Fiscal Year 2011-12

### 1.4 Material changes in fiscal-year 2011-2012

Significant changes that have occurred within PCO during the fiscal year 2011-2012 are as follows:

- Ms. Michelle Doucet was appointed Assistant Deputy Minister, Corporate Service and Chief Financial Officer on January 23, 2012;
- Ms. Mary Ritchie was appointed as an external member on PCO's Departmental Audit Committee on November 17, 2011;
- A new Executive Committee was established in January 2012; the Ad Hoc Committee on Resource Management. The responsibilities of the Committee are further described in Section 2.1;
- The Office of the Special Advisor on Human Smuggling and Illegal Migration was created at PCO.

### 2. PCO's control environment relevant to ICFR

PCO recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. PCO's objective is to continually improve its internal control environment using a risk-based approach and targeted resource investment so that the required level of effectiveness is achieved at a manageable cost.

#### 2.1 Key positions, roles and responsibilities

Following are PCO's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

**Deputy Minister (DM)** – The Deputy Minister, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the DM chairs the Executive Committee.

**Associate Secretary to the Cabinet and Deputy Minister of Intergovernmental (Associate DM)** – The Associate Deputy Minister supports the Deputy Minister with respect to the stewardship of PCO, including financial management.

**Chief Financial Officer (CFO)** – PCO's CFO reports directly to the DM and provides leadership for the design and maintenance of an effective and integrated system of ICFR, including its annual assessment. The CFO provides leadership to the financial management of PCO and is a member of the PCO Executive Committee.

**Deputy Chief Financial Officer (DCFO)** – The Deputy Chief Financial Officer, as sub-delegated by the CFO, is responsible for designing and implementing financial business processes that meet all mandatory and desired internal controls in compliance with the FAA, regulations and Treasury Board policies and directives.

**Senior Departmental Managers** – PCO's senior departmental managers are responsible for maintaining and reviewing effectiveness of their systems of ICFR falling within their areas of responsibility.

**Chief Audit Executive (CAE)** – PCO's CAE reports directly to the DM and provides assurance through periodic internal audits, as identified by the Risk-Based Audit Plan, which is instrumental to the maintenance of an effective system of ICFR.

**Departmental Audit Committee (DAC)** – The DAC is an advisory committee to the Deputy Minister (DM); it is comprised of three external members and two members of the Executive Committee. It provides objective advice and recommendations to the DM in the area of risk management, control and governance frameworks and processes.

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**Executive Committee (EC)** - The Executive Committee (EC) is the most senior decision-making committee of the PCO. The Executive Committee reviews the overall management of the Department and exercises decision-making over a variety of matters including human resources, budgetary and financial matters, corporate planning and performance reporting, official languages, informatics, IT technology, information management. The EC also approves corporate plans and strategies and oversees resource allocation and corporate risk management.

### 2.2 Key measures taken by PCO

PCO's control environment includes a series of measures and tools to enable its staff to effectively manage risks through raising awareness, providing appropriate knowledge, as well as developing skill sets. This control environment sets the tone for the Department, and is the foundation for its ICFR. Main key measures include:

- A Senior Official is designated as champion for Values and Ethics;
- A Senior Official is designated as the Disclosure Officer and an internal disclosure process is in place;
- A internal disclosure process is in place and a Corporate Risk Profile that is updated semi-annually;
- A requirement for accounting designations in key financial management positions, as well as a section within the Financial Management Division focused on ICFR;
- A risk-based internal audit plan;
- Training programs available to managers on financial controls and regular communication on core controls to employees of financial and contracting management area;
- Formal Financial and HR delegation authority charts are reviewed and updated regularly;
- Three departmental wide financial review exercises and several specific reviews are built in the departmental financial planning cycle with an official approval process;
- Secure financial and contracting information technology (IT) processing systems to achieve enhanced security, data integrity, and efficiency and effectiveness of transactions;
- A dedicated group under the supervision of the DCFO tasked with the oversight of ICFR;
- Key financial business processes and related controls are documented;
- Accounting Officer Project: Project that uses a risk-based approach to document key non-financial policies/directives/Acts;
- Monthly financial updates provided to all managers including senior management;
- Fully documented audit binder prepared annually;
- A quality assurance and monitoring plan for financial internal controls to ensure operational effectiveness over time (based on a 3-year cycle);
- A Pay Administration Control Framework; to review key pay and compensation related controls in HR and Finance;

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- A risk-base account verification approach which uses a sampling methodology for salary and non-salary transactions;
- Ongoing monthly quality assurance monitoring activities for Creditcards;
- A Section 34 of the FAA - Quality control grid used to assess the quality of reviews done by managers; and
- A Management Control Framework listing existing key financial and non-financial controls is in place at the Privy Council Office.

### 3. Assessment of PCO's system of ICFR

#### 3.1 Assessment approach

In 2004, the Government of Canada commenced an initiative to determine the ability of departments to sustain controls-based audits of their financial statements, thus placing reliance on well functioning internal controls. As a result, in 2007, PCO hired a consulting firm to conduct a financial statement readiness assessment. This assessment provided the baseline for PCO to move forward in reviewing its internal controls and preparing for controls-based audited financial statements.

In 2008, a small unit was created in the Finance and Corporate Planning Division to work on internal controls. In the same year, a consulting firm was hired to develop a Financial Management Control Framework and provide support with the design and review of key internal controls and key financial processes. A risk-base approach was used to identify key processes and controls and business processes were documented. Furthermore, a quality assurance and monitoring plan for financial controls was also developed to ensure control effectiveness over time.

Whether it is to support controls-based audits or meet the requirements of the Policy on Internal Control, PCO must be able to maintain an effective system of ICFR with the objectives to provide reasonable assurance that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded; and
- Applicable laws, regulations and policies are followed.

Over time, this includes assessment of **design** and **operating** effectiveness of the system of ICFR leading to ensuring the on-going monitoring and continuous improvement of the departmental system of ICFR.

**Design effectiveness** means to ensure that key control points are identified, documented, in place and that any remediation is addressed.

**Operating effectiveness** means that the application of key controls has been tested over a defined period and that any required remediation is addressed.

Such testing covers all departmental control levels: entity, business processes and General Computer Controls.



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## Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Privy Council Office for Fiscal Year 2011-12

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### 3.2 Assessment Methodology

In proceeding with the preparation for sustaining a controls-based audit, PCO, with the assistance of an independent external consulting firm, reviewed PCO's Financial Statements, identifying the significant business processes and key control points. Potential gaps in the internal control framework were then identified along with the level of associated risks. The review started with general entity-level controls and continued with business process controls. The following key business processes and others were identified:

Specimen Signature Cards, Salaries and Wages Reconciliation, SMS & PWGSC Pay System, Travel Authority and Advances, Travel Claims (Canada/US Continental and International), Hospitality, Other Goods, Other Services, Accrued Receivables Deposits, PAYE and RAYE Liabilities, Contingent Liabilities, Specified Purpose Accounts, Control Account Reconciliation, Capital Assets.

Once these processes were documented and reviewed other processes were also documented and reviewed.

For each business process, the following steps were substantially completed:

- Confirmed the effectiveness of the organization-wide control environment as this is critical in supporting internal controls at the business process level;
- Updated internal control documentation based on changes made to processes, and controls relevant to ICFR, including appropriate linkages to policies and procedures and confirmed that these changes mitigated the identified risks from a design perspective;
- Mapped out key processes using flowcharts and various narrative approaches to identify key risk and control points; and
- Conducted reviews of each business process to confirm that the controls were functioning as specified in the design documentation.

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## Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Privy Council Office for Fiscal Year 2011-12

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### 4. Assessment Results

In assessing its key controls, PCO looked at both design effectiveness and operating effectiveness, and initiated confirmation of control implementation.

#### 4.1 Design effectiveness of key controls

When completing design effectiveness testing, PCO created business process documentation for high risk processes and a few others and validated the processes with stakeholders. It confirmed that the documented processes operated as described. Minor adjustments were made to documentation and/or to the business process, as required.

#### 4.2 Operating effectiveness of key controls

The operating effectiveness test is conducted at PCO based on a quality assurance and monitoring plan which is based on a three-year cycle. This plan was put in place in fiscal year 2010-11. Since then, PCO was able to review 7 key business processes and for the most part controls were all functioning properly. Those that were not functioning were identified and corrective actions initiated.

In addition, in fiscal year 2010-11, PCO hired an external consulting firm to conduct a mock audit of its 2009-10 financial statements. As part of the work performed, key internal controls were reviewed and PCO's system of internal control was deemed to be operating effectively.

### 5. PCO's Action Plan

#### 5.1 Progress made as of March 31, 2012

Since 2010-11, PCO has made continuous progress in assessing and improving its controls. Below is a summary of the main progress made:

- Review the operating effectiveness of 7 key business processes and controls (the revisions are based on PCO's Quality Assurance and Monitoring plan for financial internal controls to ensure operational effectiveness over time (based on a 3-year cycle);
- Strengthening of controls related to approval under Section 32 of the FAA;
- Developing a Management Control Framework listing existing key financial and non financial controls;
- Findings on main deficiencies resulting from financial monitoring activities were communicated to all PCO managers and their administrative assistants;
- Document a new business process; Budgeting and reporting;
- Implement a new process for the management of PCO's Specified Purpose Account;
- Implement statistical sampling on Section 33 of FAA for salary and non-salary transactions;

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- Review PCO's Financial Delegation Chart to align with the new Treasury Board Policy on the Management of Expenditures for Travel, Hospitality and Conferences;
- Formalize approval process for Future Oriented Financial Statements and Quarterly Financial Reports;
- Implement new software to partially automate the production of Year- End Financial Statements and Quarterly Financial Reports; and,
- Conduct an internal audit on corporate governance to assess the adequacy of PCO governance mechanisms.

### 5.2 Action plan for the next fiscal year and subsequent years:

#### For fiscal year 2012-2013, PCO plans to:

- Formalize the approval process for the Public Accounts and the Year-End Financial Statements by documenting and keeping on file evidence of approvals at all stages;
- Conduct operating effectiveness for entity level-controls to ensure that these controls remain effective over a defined period and that any required remediation is addressed. The entity-level controls are non financials controls that reside higher in the organization that might have a pervasive effect on the risk of errors or fraud.
- Update PCO's Management Controls Framework with new or revised financial and non financial controls, if any;
- Implement PCO's Code of Ethics; and.
- Strengthen PCO's governance structure by implementing recommendations resulting from an internal audit on governance.

#### For fiscal year 2013-2014 and future years, PCO plans to:

- Implement an asset management module integrated to PCO's departmental financial system;
- Implement a Financial Delegation Chart module integrated to PCO's departmental financial system; and
- Implement a Salary Management module integrated to PCO's departmental financial system.