

PRIVY COUNCIL OFFICE

Statement of Management Responsibility including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2015, and all information contained in these statements rests with the management of the Privy Council Office (PCO). 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 PCO's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in PCO'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; organizational arrangements that provide appropriate divisions of responsibility; communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout PCO; and, 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, 2015 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 PCO's system of internal control is reviewed by the work of internal audit staff, who conducts periodic audits of different areas of PCO's operations, and by the Departmental Audit Committee, which provides objective advice and recommendations to the Clerk of the Privy Council and Secretary to the Cabinet on the adequacy and functioning of the department's risk management, control and governance frameworks and processes including the annual financial statements.

These statements have not been subject to an external audit or review but have been shared with the PCO Departmental Audit Committee and they reflect the committee members' comments.

Janice Charette
Clerk of the Privy Council and Secretary to the Cabinet

Ottawa, Canada
September 3, 2015

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) 2015 2014

Liabilities

Accounts payable and accrued liabilities (note 4)	13,359	10,850
Vacation pay and compensatory leave	5,467	5,278
Employee future benefits (note 5)	7,158	5,756

Total liabilities	25,984	21,884
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Assets

Financial assets

Due from Consolidated Revenue Fund	12,147	9,484
Accounts receivable and advances (note 6)	789	1,252

Total net financial assets	12,936	10,736
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Departmental net debt	13,048	11,148
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Non-financial assets

Prepaid expenses	574	431
Inventory (note 7)	160	286
Tangible capital assets (note 8)	6,526	6,441

Total non-financial assets	7,260	7,158
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Departmental net financial position	(5,788)	(3,990)
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Contractual obligations (note 9)

Contingent liabilities (note 10)

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

Janice Charette
Clerk of the Privy Council and Secretary to the Cabinet

Ottawa, Canada
September 3, 2015

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

(in thousands of dollars)		Planned Results 2015	2015	2014
Expenses				
Advice and support to the Prime Minister and portfolio ministers		62,844	62,000	63,500
Advice and support to Cabinet and Cabinet committees		14,281	13,385	13,951
Public service leadership and direction		3,117	2,629	2,408
Internal Services		61,295	64,717	62,439
Total Expenses		141,537	142,731	142,298
Revenues				
Miscellaneous		32	21	12
Internal Services Support		75	75	75
Revenues earned on behalf of Government		(8)	(6)	(7)
Total Revenues		99	90	80
Net cost of operations before government funding and transfers		141,438	142,641	142,218
Government funding and transfers				
Net cash provided by Government			120,207	126,662
Change in due from the Consolidated Revenue Fund			2,663	(550)
Services provided without charge by other government departments (note 10)			20,653	20,193
Transfer of the transition payments for implementing salary payments in arrears (note 12)			(2,650)	-
Transfer of tangible capital assets (to) other government departments			(30)	(16)
Net cost (revenue) of operations after government funding and transfers			1,798	(4,071)
Departmental net financial position - Beginning of year			(3,990)	(8,061)
Departmental net financial position - End of year			(5,788)	(3,990)

Segmented information (note 13)

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

(in thousands of dollars)	2015	2014
Net cost (revenue) of operations after government funding and transfers	1,798	(4,071)
Change due to tangible capital assets		
Acquisition of tangible capital assets	1,779	3,022
Amortization of tangible capital assets	(1,652)	(1,308)
Proceeds from disposal of tangible capital assets	(19)	(5)
Gain (loss) on disposal of tangible capital assets	7	(7)
Transfer to other government departments	(30)	(16)
Total change due to tangible capital assets	85	1,686
Change due to inventories	(126)	(184)
Change due to prepaid expenses	143	(73)
Net increase (decrease) in departmental net debt	1,900	(2,642)
Departmental net debt - Beginning of year	11,148	13,790
Departmental net debt - End of year	13,048	11,148

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)

2015

2014

Operating activities

Net cost of operations before government funding and transfers	142,641	142,218
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Non-cash items:

Amortization of tangible capital assets	(1,652)	(1,308)
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Gain (loss) on disposal of tangible capital assets	7	(7)
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Services provided without charge by other government departments (note 11)	(20,653)	(20,193)
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Transition payments for implementing salary payments in arrears (note 12)	2,650	-
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Variations in Statement of Financial Position:

(Decrease) increase in accounts receivable and advances	(463)	505
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Increase (decrease) in prepaid expenses	143	(73)
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(Decrease) in inventory	(126)	(184)
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(Increase) decrease in accounts payable and accrued liabilities	(2,509)	350
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(Increase) decrease in vacation pay and compensatory leave	(189)	197
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(Increase) decrease in employee future benefits	(1,402)	2,140
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Cash used in operating activities	118,447	123,645
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Capital investing activities

Acquisitions of tangible capital assets (note 8)	1,779	3,022
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Proceeds from disposal of tangible capital assets	(19)	(5)
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Cash used in capital investing activities	1,760	3,017
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Net cash provided by Government of Canada	120,207	126,662
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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

1. Authority and objectives

PCO is a division of the federal public administration as set out in column 1 of Schedule I.1 of the *Financial Administration Act* and reports to Parliament through the Prime Minister.

PCO reports directly to the Prime Minister and is headed by the Clerk of the Privy Council and Secretary to the Cabinet. The Clerk is also the Head of the Public Service. The mandate of PCO is to serve Canada and Canadians by providing professional, non-partisan advice and support to the Prime Minister, and the ministers within the Prime Minister's portfolio and Cabinet. PCO supports the development of the Government of Canada's policy and legislative agendas, coordinates responses to issues facing the Government and the country, and supports the effective operation of Cabinet.

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. PCO provides administrative and financial management support to commissions of inquiry. There were no active commissions of inquiry in 2014-15.

To achieve its strategic outcome and to deliver results for Canadians, PCO articulates its plans and priorities based on the core programs below.

1.1 Advice and support to the Prime Minister and portfolio ministers

PCO provides professional, non-partisan advice and support to the Prime Minister and portfolio ministers on the full spectrum of issues and policies they address on a daily basis. PCO also provides advice and support on: the structure and organization of government; government-wide communications; the Governor-in-Council appointments system; the development and implementation of parliamentary and legislative programs; democratic reform and legal issues. In addition, PCO provides administrative advice and support pertaining to the budgets of the Prime Minister's Office and those of the offices of portfolio ministers.

1.2 Advice and support to Cabinet and Cabinet committees

PCO supports the efficient and effective functioning of Cabinet and Cabinet committees on a day-to-day basis. As part of this work, PCO coordinates departmental policy, legislative and government administration proposals going to Cabinet and its committees; performs a challenge function during the policy development process; and prepares briefing materials and accompanying policy analysis to facilitate Cabinet's decision-making process. PCO also provides a secretariat function for Cabinet and its committees, which includes scheduling and support services for meetings, as well as preparation and distribution of Cabinet documents. In addition, PCO supports effective policy integration across the federal government so that proposals take into account the full range of departmental perspectives and issues related to implementation, such as communications, parliamentary affairs, intergovernmental relations and budget impacts.

1.3 Public service leadership and direction

PCO supports the development and maintenance of a high-quality Public Service that meets the highest standards of accountability, transparency and efficiency. As part of this work, PCO provides advice to the Clerk of the Privy Council and the Prime Minister on the renewal of Public Service and government operations in order to position the Public Service workforce and workplace for the future as more adaptable, innovative and streamlined. PCO also supports the human resources management of senior leaders across the government, including performance management and leadership development.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

1. Authority and objectives (continued)

1.4 Commissions of inquiry

PCO provides commissions of inquiry with financial and administrative support. As part of this work, PCO can, when necessary, provide ongoing administrative advice and support in the following areas: staffing; acquisition services; contracting; financial services; access to funding; records management; payroll support; publishing information online; translation; legal services; security; and systems support.

Internal Services

Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.

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

PCO is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to PCO 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 "Expenses" and "Revenues" sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2014-15 Report on Plans and Priorities*. Planned results are not presented in the "Government funding and transfers" section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the *2014-15 Report on Plans and Priorities*.

(b) Net Cash Provided by Government

PCO operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by PCO is deposited to the CRF, and all cash disbursements made by PCO 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

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 PCO is entitled to draw from the CRF without further authorities to discharge its liabilities.

(d) Expenses

Expenses are recorded on the accrual basis:

- ✓ 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 and workers' compensation are recorded as operating expenses at their estimated cost.

(e) 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 PCO's liabilities. While the Clerk of the Privy Council and Secretary to the Cabinet is expected to maintain accounting control, she 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 PCO's gross revenues.

(f) Employee future benefits

- ✓ **Pension benefits:** Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. PCO's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. PCO'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 receivable

Accounts receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for accounts receivable 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) Inventory

Inventory consists of parts, materials and supplies held for future program delivery and not intended for resale. Inventory is valued at cost using the specific identification method. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

(j) Tangible capital assets

Tangible capital assets having an initial cost of \$5,000 or more are recorded at their acquisition cost. PCO 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.

(k) 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

PCO 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, PCO 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

(in thousands of dollars)	2015	2014
Net cost of operations before government funding and transfers	142,641	142,218

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

Amortization of tangible capital assets	(1,652)	(1,308)
Gain (loss) on disposal of tangible capital assets	7	(7)
Services provided without charge by other government departments	(20,653)	(20,193)
Prepaid expenses previously charged to appropriation	(1,002)	(914)
(Increase) decrease in vacation pay and compensatory leave	(189)	197
(Increase) decrease in employee future benefits	(1,402)	2,140
(Increase) decrease in accrued liabilities	(300)	278
Refund of prior years' expenditures	309	302
Other	(13)	(7)
	(24,895)	(19,512)

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

Acquisition of tangible capital assets	1,779	3,022
Transition payments for implementing salary payments in arrears	2,650	-
Decrease in inventory	(126)	(184)
Increase in prepaid expenses	1,145	841
	5,448	3,679

Current year authorities used	123,194	126,385
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(b) Authorities provided and used

(in thousands of dollars)	2015	2014
Authorities provided:		
Vote 1 - Program expenditures	113,747	117,998
Statutory amounts	13,478	14,272
Less:		
Authorities available for future years	(18)	(6)
Lapsed: Operating	(4,013)	(5,879)
Current year authorities used	123,194	126,385

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 PCO's accounts payable and accrued liabilities:

(in thousands of dollars)	2015	2014
Accounts payable - External parties	10,217	8,268
Accounts payable - Other government departments and agencies	2,759	2,431
Total accounts payable	12,976	10,699
Accrued liabilities	300	-
Other liabilities	83	151
Total accounts payable and accrued liabilities	13,359	10,850

5. Employee future benefits

(a) Pension benefits

PCO's employees participate in the public service pension plan (the "Plan"), which is sponsored and administered by the Government of Canada. 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 Plan benefits and they are indexed to inflation.

Both the employees and PCO contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups - Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2014-15 expense amounts to \$11,681,653 (\$12,522,520 in 2013-14). For Group 1 members, the expense represents approximately 1.41 times (1.6 times in 2013-14) the employee contributions and, for Group 2 members, approximately 1.39 times (1.5 times in 2013-14) the employee contributions.

PCO'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.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

5. Employee future benefits (continued)

(b) Severance benefits

PCO 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.

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.

Information about the severance benefits, measured as at March 31, is as follows:

(in thousands of dollars)	2015	2014
Accrued benefit obligation - Beginning of year	5,756	7,896
Expense for the year	2,470	(158)
Benefits paid during the year	(1,068)	(1,982)
Accrued benefit obligation - End of year	7,158	5,756

6. Accounts receivable and advances

The following table presents details of PCO's accounts receivable and advances balances:

(in thousands of dollars)	2015	2014
Receivables - Other government departments and agencies	479	810
Receivables - External parties	342	433
Employee advances	13	41
Subtotal	834	1,284
Allowance for doubtful accounts on receivables from external parties	45	32
Net accounts receivable	789	1,252

7. Inventory

The following table presents details of PCO's inventory, measured at cost using the specific identification method:

(in thousands of dollars)	2015	2014
Office equipment and furniture	160	171
Informatics equipment	-	115
Total inventory	160	286

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

8. Tangible capital assets

(in thousands of dollars)	Cost					Accumulated Amortization					Net Book Value	
	Opening Balance	Acquisitions	Adjustments	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments	Disposals and Write-Offs	Closing Balance	2015	2014
Machinery and equipment	60	-	-	-	60	34	4	-	-	38	22	26
Informatics hardware	3,958	99	-	(319)	3,738	2,739	338	-	(320)	2,757	981	1,219
Informatics software	9,504	20	1,190	-	10,714	6,844	894	-	-	7,738	2,976	2,660
Other equipment	6,371	676	-	(126)	6,921	4,516	384	-	(119)	4,781	2,140	1,855
Motor vehicles	496	31	(31)	(69)	427	349	32	(1)	(63)	317	110	147
Work in progress - software	534	953	(1,190)	-	297	-	-	-	-	-	297	534
	20,923	1,779	(31)	(514)	22,157	14,482	1,652	(1)	(502)	15,631	6,526	6,441

NOTES:

Net adjustment of \$30,055 (\$30,694 - \$639) is due to the transfer of capital assets to other departments.

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.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

9. Contractual obligations

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

(in thousands of dollars)	2016	2017	2018	2019	2020 and thereafter	Total
Transport and telecommunications	543	254	2	18	-	817
Information	1,452	50	-	-	-	1,502
Professional and special services	3,325	218	156	28	29	3,756
Rental	659	338	178	541	12	1,728
Purchased repair and maintenance	793	-	-	-	-	793
Utilities, materials and supplies	42	-	-	-	-	42
Acquisition of machinery and equipment	107	23	-	-	-	130
Total	6,921	883	336	587	41	8,768

In 2016, PCO will be obligated to pay an amount of \$1.3 million to Commissionaires Ottawa for Professional and special services.

10. Contingent liabilities

Claims have been made against PCO in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. PCO has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

11. Related party transactions

PCO is related as a result of common ownership to all government departments, agencies, and Crown corporations. PCO enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, PCO has an agreement with the Security Intelligence Review Committee related to the provision of finance and administration services which is included in revenues of the section b) of this note. During the year, PCO 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, PCO 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 PCO's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2015	2014
Accommodation	13,576	12,945
Employer's contribution to the health and dental insurance plans	7,076	7,247
Worker's compensation	1	1
Total	20,653	20,193

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 PCO's Statement of Operations and Departmental Net Financial Position. The costs of information technology infrastructure services provided by Shared Services Canada, following the transfer of responsibilities in November 2011 and April 2013, are also not included in PCO's Statement of Operations and Departmental Net Financial Position.

b) Other transactions with related parties

(in thousands of dollars)	2015	2014
Revenues - Other government departments and agencies	75	75
Expenses - Other government departments and agencies	24,452	25,489

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

12. Transfer of the transition payments for implementing salary payments in arrears

The Government of Canada implemented salary payments in arrears in 2014-15. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of PCO. However, it did result in the use of additional spending authorities by PCO. Prior to year end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Works and Government Services Canada, who is responsible for the administration of the Government pay system.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

13. Segmented information

Presentation by segment is based on PCO's program alignment 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 alignments, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)	Advice and support to the Prime Minister and portfolio ministers	Advice and support to Cabinet and Cabinet committees	Public service leadership and direction	Internal Services	2015	2014
Expenses						
Salaries and employee benefits	54,217	12,445	2,380	37,941	106,983	105,676
Professional and special services	2,613	560	136	6,926	10,235	12,253
Accommodation	-	-	-	13,576	13,576	12,945
Transportation and telecommunications	2,418	211	44	550	3,223	2,862
Acquisition of machinery and equipment	104	4	5	1,093	1,206	2,314
Purchased repair and maintenance	26	5	53	1,444	1,528	1,338
Information	1,814	34	-	109	1,957	1,885
Amortization of tangible capital assets	71	-	-	1,581	1,652	1,308
Rentals	437	64	9	548	1,058	1,069
Utilities, materials and supplies	185	17	2	477	681	780
Other	115	45	-	472	632	(132)
Total Expenses	62,000	13,385	2,629	64,717	142,731	142,298
Revenues						
Miscellaneous	-	-	-	21	21	12
Internal Support Services	-	-	-	75	75	75
Revenues earned on behalf of Government	-	-	-	(6)	(6)	(7)
Total Revenues	-	-	-	90	90	80
Net cost of operations before government funding and transfers	62,000	13,385	2,629	64,627	142,641	142,218

14. Comparative information

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

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Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2014-15

1. Introduction

This document provides summary information on measures taken by the Privy Council Office (PCO) 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 PCO's authority, mandate, and programs can be found in our Report on Plans and Priorities and Departmental Performance Report <http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=rpp/2015-2016/index-eng.htm> <http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=dpr-rmr/2014-2015/index-eng.htm>

2. Departmental system of internal control over financial reporting

2.1 Internal Control Management

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.

PCO's control environment enables 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 PCO, and is the foundation for its ICFR. PCO has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal management control framework, approved by the Clerk of the Privy Council, is in place which includes:

- Values and ethics framework;
- Organizational accountability structures as they relate to internal control management to support sound financial management including roles and responsibilities for senior managers in their areas of responsibility;
- Evidence of effective planning and reporting activities which includes multiple financial reviews and regular financial reporting to all managers including senior management;
- Integrated risk management and on-going quality assurance and monitoring activities;
- On-going communication and training on statutory requirements, policies, and procedures for sound financial management and control; and
- Monitoring and regular updates as needed on internal control management plus assessment results and action plan.

The Departmental Audit Committee (DAC) engages regularly with management on internal control issues and provides advice to the Clerk of the Privy Council on the adequacy and functioning of the department's risk management, control and governance frameworks and processes.

2.2 Service Arrangements relevant to financial statements

PCO relies on other government departments for the processing of certain transactions that are recorded in its financial statements as follows:

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Common Arrangements:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of certain goods and services and provides accommodation services;
- On behalf of the employer, the Treasury Board Secretariat (TBS) provides PCO with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to PCO; and
- Shared Services Canada (SSC) provides IT infrastructure services to PCO in the areas of data centre and network services. SSC also provides the service for the acquisition and provision of hardware and software for workplace technology devices to PCO. The scope and responsibilities are addressed in the interdepartmental arrangement between SSC and PCO.

Specific Arrangements:

- TBS provides PCO with a SAP financial system platform to capture and report all financial transactions.

3. Departmental assessment results during fiscal year 2014-15

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls - There were three new business processes documented (Vendors, Budget Review Exercises and Resource Allocation) and no major changes in the existing key controls and in existing processes which required a reassessment.

On-going monitoring program - As part of its rotational on-going monitoring plan, PCO completed its assessment of controls related to the following key processes: Goods and Services (Hospitality), Payroll, Payables at Year-End and Contingent Liabilities. The following remediations are required:

For Goods and Services (Hospitality):

- Improve commitment procedure to better estimate and control hospitality expenses;
- Revise the hospitality form to ensure that all required information is included;
- Provide hospitality training and communication to ensure that cost centres' manager understands fully their financial responsibilities and accountabilities; and
- Improve payment procedure related to hospitality.

For Payroll:

- Improve instructions to managers related to the letter of employment;
- Examine the process for the monitoring of Payroll; and
- Improve the evidence of the review and documentation of Payroll transactions including the approval process.

For Payables at Year-End:

- Improve procedures related to financial coding.

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For Contingent Liabilities:

- Separate the occurrence and the status in the contingent liabilities report to ensure that legal opinion is provided for both items; and
- Delegate authority to the Deputy Chief Financial Officer to certify Contingent Liabilities.

A remediation action plan addressing the remediation requirements above is being implemented.

4. Departmental action plan

4.1 Progress during fiscal year 2014-15

PCO conducted its on-going monitoring according to the previous fiscal year's rotational plan as follows:

Previous year's rotational on-going monitoring plan for current year	Status
• Goods and Services (Hospitality)	Completed. Remediation actions are planned.
• Payroll	Completed. Remediation actions are planned.
• Accounts Payable at Year-End	Completed. Remediation actions are planned.
• Accounts Receivable at Year-End	The risk related to Accounts Receivable at Year-End has decreased. Therefore, this business process was not monitored in 2014-15.
• Contingent Liabilities	Completed. Remediation actions are planned.

In 2014-15, PCO performed the following audit work in addition to its on-going monitoring:

- Follow-Up Audit of Business Continuity Management;
- Audit of Contracting;
- Audit of Information Technology Management;
- Review of the Implementation of Management Action Plans;
- Fraud Risk Assessment; and
- Audit of Internal Control over Financial Reporting (will be completed in 2015-16).

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4.2 Action plan for the next fiscal year and subsequent years

PCO's rotational on-going monitoring plan over the next fiscal years, based on an annual validation of the high risk processes and controls and related adjustments to the on-going monitoring plan as required, is shown in the following table:

Rotational On-going Monitoring Plan for Internal Control over Financial Reporting			
Key Control Areas	Operating Effectiveness Testing Rotation		
	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Goods and Services		X	X
Travel Expenses		X	
Payroll			X
Financial Delegation	X		
Accounts Receivable		X	
Specified Purpose Accounts		X	
Accounts Payable at Year-End			X
Contingent Liabilities			X
Capital Assets	X		
Budgets Review Exercises	X		
Resource Allocation	X		
Vendors	X		
Other Operating Expenditures		X	
Departmental Net Asset (Liabilities)		X	

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Changes occurred in the key control areas to ensure proper alignment with the Internal Control over Financial Reporting Framework.

In addition in 2015-16, PCO will be completing or conducting the following audits:

- Audit of Recordkeeping Transformation;
- Performance Measurement Strategy for the Central Innovation Hub;
- Review of Staffing Activities;
- Audit of the Management and Use of Acquisition Cards;
- Risk Assessment of PCO's Personal Information Holdings; and
- Completion of the Audit of Internal Control over Financial Reporting.