

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, 2017, 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 Results 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, 2017 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 conduct 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.

Michael Wernick
Clerk of the Privy Council and Secretary to the Cabinet

Kami Ramcharan
Chief Financial Officer

Ottawa, Canada
September 1, 2017

PRIVY COUNCIL OFFICE

Statement of Financial Position (Unaudited)

As at March 31

		Restated (note 13)
(in thousands of dollars)	2017	2016
Liabilities		
Accounts payable and accrued liabilities (note 4)	29,307	13,458
Vacation pay and compensatory leave	5,878	4,386
Employee future benefits (note 5)	4,804	4,423
Total liabilities	39,989	22,267
Assets		
Financial assets		
Due from Consolidated Revenue Fund	25,316	11,395
Accounts receivable and advances (note 6)	4,796	1,514
Total net financial assets	30,112	12,909
Departmental net debt	9,877	9,358
Non-financial assets		
Prepaid expenses	760	599
Inventory (note 7)	2,011	220
Tangible capital assets (note 8)	9,670	5,821
Total non-financial assets	12,441	6,640
Departmental net financial position	2,564	(2,718)

Contractual obligations (note 9)

Contingent liabilities (note 10)

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

Michael Wernick
Clerk of the Privy Council and Secretary to the Cabinet

Kami Ramcharan
Chief Financial Officer

Ottawa, Canada
September 1, 2017

PRIVY COUNCIL OFFICE

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31

	Planned Results		Restated (note 13)
(in thousands of dollars)	2017	2017	2016
Expenses			
Advice and support to the Prime Minister and portfolio ministers	66,435	72,708	63,244
Advice and support to Cabinet and Cabinet committees	13,963	12,849	13,176
Public Service leadership and direction	4,711	4,159	3,423
Commissions of inquiry	-	3,170	-
Internal Services	62,297	77,044	60,088
Total Expenses	147,406	169,930	139,931
Revenues			
Miscellaneous	17	33	14
Internal Services Support	75	73	75
Revenues earned on behalf of Government	(4)	(15)	(10)
Total Revenues	87	91	79
Net cost of operations before government funding and transfers	147,319	169,839	139,852
Government funding and transfers			
Net cash provided by Government		140,589	123,299
Change in due from the Consolidated Revenue Fund		13,921	(752)
Services provided without charge by other government departments (note 11)		20,648	20,367
Transfer of the transition payments for implementing salary payments in arrears		-	(31)
Transfer of tangible capital assets (to) other government departments		(37)	39
Net cost of operations after government funding and transfers		(5,282)	(3,070)
Departmental net financial position - Beginning of year		(2,718)	(5,788)
Departmental net financial position - End of year		2,564	(2,718)

Segmented information (note 12)

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

		Restated (note 13)
(in thousands of dollars)	2017	2016
Net cost of operations after government funding and transfers	(5,282)	(3,070)
Change due to tangible capital assets		
Acquisition of tangible capital assets	5,686	1,703
Amortization of tangible capital assets	(1,332)	(1,699)
Proceeds from disposal of tangible capital assets	(34)	(9)
Loss on disposal of tangible capital assets	(434)	(739)
Transfer to other government departments	(37)	39
Total change due to tangible capital assets	3,849	(705)
Change due to inventories	1,791	60
Change due to prepaid expenses	161	25
Net increase (decrease) in departmental net debt	519	(3,690)
Departmental net debt - Beginning of year	9,358	13,048
Departmental net debt - End of year	9,877	9,358

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

		Restated (note 13)
(in thousands of dollars)	2017	2016
Operating activities		
Net cost of operations before government funding and transfers	169,839	139,852
Non-cash items:		
Amortization of tangible capital assets	(1,332)	(1,699)
Loss on disposal of tangible capital assets	(434)	(739)
Services provided without charge by other government departments (note 11)	(20,648)	(20,367)
Transition payments for implementing salary payments in arrears	-	31
Variations in Statement of Financial Position:		
Increase in accounts receivable and advances	3,282	725
Increase in prepaid expenses	161	25
Increase in inventory	1,791	60
Increase in accounts payable and accrued liabilities	(15,849)	(99)
(Increase) decrease in vacation pay and compensatory leave	(1,492)	1,081
(Increase) decrease in future employee benefits	(381)	2,735
Cash used in operating activities	134,937	121,605
Capital investing activities		
Acquisitions of tangible capital assets (note 8)	5,686	1,703
Proceeds from disposal of tangible capital assets	(34)	(9)
Cash used in capital investing activities	5,652	1,694
Net cash provided by Government of Canada	140,589	123,299

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.

2016–17 marked the first full fiscal year of support by PCO to the 23rd Prime Minister (PM) and 29th Ministry of Canada following the Government's swearing-in ceremonies and Speech from the Throne (November 2015).

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 is currently one active commission in 2016–17: National Inquiry into Missing and Murdered Indigenous Women and Girls.

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 they address on a daily basis. PCO also provides advice and support on: the structure and organization of government; government-wide communications; Governor-in-Council appointments; the development and implementation of parliamentary and legislative programs; the reform of democratic institutions; intergovernmental relations; 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 and Public Service-wide 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 2016–17 *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 2016–17 *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, 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 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	Once in service, in accordance with asset class

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 for 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

		Restated (note 13) 2016
(in thousands of dollars)	2017	

Net cost of operations before government funding and transfers	169,839	139,852
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Adjustments for items affecting net cost of operations but not affecting authorities:

Amortization of tangible capital assets	(1,332)	(1,699)
Loss on disposal of tangible capital assets	(434)	(739)
Services provided without charge by other government departments	(20,648)	(20,367)
Prepaid expenses previously charged to appropriation	(1,204)	(1,098)
(Increase) decrease in vacation pay and compensatory leave	(1,492)	1,081
(Increase) decrease in future employee benefits	(381)	2,735
Refund of prior years' expenditures	548	429
Other	45	8
Total items affecting net cost of operations but not affecting authorities	(24,898)	(19,650)

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

Acquisition of tangible capital assets	5,686	1,703
Transition payments for implementing salary payments in arrears	-	31
Increase in inventory	1,791	60
Increase in prepaid expenses	1,365	1,123
Accounts receivable and advances	458	-
Total items not affecting net cost of operations but affecting authorities	9,300	2,917

Current year authorities used	154,241	123,119
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(b) Authorities provided and used

(in thousands of dollars)	2017	2016
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Authorities provided:

Vote 1 - Program expenditures	146,984	113,390
Statutory amounts	12,825	13,825

Less:

Authorities available for future years	(34)	(9)
Lapsed: Operating	(5,534)	(4,087)

Current year authorities used	154,241	123,119
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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)	2017	2016
Accounts payable - Other government departments and agencies	8,936	2,263
Accounts payable - External parties	19,931	10,810
Total accounts payable	28,867	13,073
Accrued liabilities	300	300
Other liabilities	140	85
Total accounts payable and accrued liabilities	29,307	13,458

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 2016–2017 expense amounts to \$11,140,205 (\$11,983,959 in 2015–2016). For Group 1 members, the expense represents approximately 1.12 times (1.25 times in 2015–2016) the employee contributions and, for Group 2 members, approximately 1.08 times (1.24 times in 2015–2016) 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

Severance benefits provided to PCO's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2017, substantially all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

(in thousands of dollars)	2017	2016
Accrued benefit obligation - Beginning of year	4,423	7,158
Expense for the year	770	(388)
Benefits paid during the year	(389)	(2,347)
Accrued benefit obligation - End of year	4,804	4,423

6. Accounts receivable and advances

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

(in thousands of dollars)	2017	2016
Receivables - Other government departments and agencies	3,998	1,053
Receivables - External parties	737	392
Employee advances	98	106
Subtotal	4,833	1,551
Allowance for doubtful accounts on receivables from external parties	37	37
Net accounts receivable and advances	4,796	1,514

7. Inventory

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

(in thousands of dollars)	2017	2016
Office equipment and furniture	87	217
Informatics equipment	1,924	-
Other	-	3
Total inventory	2,011	220

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	
	Restated (note 13) Opening Balance	Acquisitions	Adjustments	Disposals and Write-Offs	Closing Balance	Restated (note 13) Opening Balance	Amortization	Adjustments	Disposals and Write-Offs	Closing Balance	2017	Restated (note 13) 2016
Machinery and equipment	60	-	-	-	60	42	5	-	-	47	13	18
Informatics hardware	3,755	427	-	(59)	4,123	3,095	359	-	(58)	3,396	727	660
Informatics software	10,456	136	1,573	(981)	11,184	8,450	560	-	(548)	8,462	2,722	2,006
Other equipment	6,982	293	1,868	(155)	8,988	5,116	359	-	(139)	5,336	3,652	1,866
Motor vehicles	505	90	(32)	(138)	425	332	49	4	(119)	266	159	173
Work in progress - software	433	1,811	(1,573)	-	671	-	-	-	-	-	671	433
Work in progress - other	665	2,929	(1,868)	-	1,726	-	-	-	-	-	1,726	665
	22,856	5,686	(32)	(1,333)	27,177	17,035	1,332	4	(864)	17,507	9,670	5,821
			(1)					(2)				

NOTES:

(1) (2)

Net adjustment of (\$36,566) (-\$32,261 - \$4,305) is due to the transfer of capital assets to other departments. Furthermore in 2016, some assets were reclassified to respect the date when they were no longer in service.

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 on programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2018	2019	2020	2021	2022 and thereafter	Total
Professional and Special Services	9,578	5,414	-	-	-	14,992
Repair and Maintenance	6,477	-	-	-	-	6,477
Information	2,161	164	-	-	-	2,325
Rental	186	517	-	-	-	703
Acquisition of Machinery and Equipment	271	-	-	-	-	271
Transportation and Communications	88	49	-	-	-	137
Utilities, Materials and Supplies	3	2	-	-	-	5
Total	18,764	6,146	-	-	-	24,910

10. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown.

These claims include items with specific 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 for the provision of finance and administration services which is included in the revenues of 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)	2017	2016
Accommodation	12,241	12,569
Employer's contribution to the health and dental insurance plans	8,406	7,797
Worker's compensation	1	1
Total	20,648	20,367

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 Services and Procurement 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)	2017	2016
Revenues - Other government departments and agencies	73	75
Expenses - Other government departments and agencies	47,477	25,366

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

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

12. 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	Commissions of inquiry	Internal Services	2017	Restated (note 13) 2016
Expenses							
Salaries and Employee Benefits	59,697	11,688	3,548	1,818	35,975	112,726	106,630
Professional and Special Services	3,107	570	311	518	21,184	25,690	9,488
Accommodation	25	-	-	93	12,241	12,359	12,569
Transportation and Communications	5,212	304	108	330	802	6,756	3,318
Acquisition of Machinery and Equipment	417	66	4	50	5,031	5,568	1,380
Information	3,184	97	172	77	319	3,849	1,541
Repair and Maintenance	37	-	-	206	3,446	3,689	1,057
Rentals	444	85	6	71	820	1,426	1,051
Amortization of tangible capital assets	73	3	-	-	1,256	1,332	1,699
Utilities, Materials and Supplies	193	14	4	7	607	825	628
Other	319	22	6	-	(4,637)	(4,290)	570
Total Expenses	72,708	12,849	4,159	3,170	77,044	169,930	139,931
Revenues							
Miscellaneous	1	-	-	-	32	33	14
Internal Support Services	-	-	-	-	73	73	75
Revenues earned on behalf of Government	(1)	-	-	-	(14)	(15)	(10)
Total Revenues	-	-	-	-	91	91	79
Net cost of operations before government funding and transfers	72,708	12,849	4,159	3,170	76,953	169,839	139,852

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

13. Adjustment to Prior Year's Results

PCO identified tangible capital assets which are no longer in service and others that required a reclassification from work-in-progress to expenses due to project changes.

Consequently, the comparative financial statements presented for the year ended March 31, 2016 have been restated. The effect of this adjustment is presented in the table below:

2015–2016 (in thousand of dollars)	2016 as previously stated	Effect of change	2016 as restated
Statement of Financial Position			
Tangible capital assets	6,557	(736)	5,821
Departmental net financial position	(1,982)	(736)	(2,718)
Statement of Operations and Departmental Net Financial Position			
Internal services	59,352	736	60,088
Total Expenses	139,195	736	139,931
Net cost of operations before government funding and transfers	139,116	736	139,852
Net cost of operations after government funding and transfers	(3,806)	736	(3,070)
Departmental net financial position - End of year	(1,982)	(736)	(2,718)
Statement of Change in Departmental Net Debt			
Net cost of operations after government funding and transfers	(3,806)	736	(3,070)
Loss on disposal of tangible capital assets	(3)	(736)	(739)
Total change due to tangible capital assets	31	(736)	(705)
Statement of Cash Flow			
Net cost of operations before government funding and transfers	139,116	736	139,852
Loss on disposal of tangible capital assets	(3)	(736)	(739)

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 for Fiscal Year 2016-17

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 Departmental Plan and Departmental Performance Report

<https://www.canada.ca/en/privy-council/services/reports/departmental-plan/2017-18.html>

<http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=dpr-rmr/2015-2016/index-eng.htm>

2. Departmental system of internal control over financial reporting

2.1 Internal Control Management

PCO recognizes the importance of ensuring 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 is the foundation for PCO's 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.

Internal audit is responsible for establishing risk-based audit plans that take into consideration the risk assessment related to the ICFR and performs assurance engagements necessary to provide the Deputy Head with independent assurance regarding risk management, control and governance processes.

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.

PRIVY COUNCIL OFFICE

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2016-17

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:

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 2016-17

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 four new business processes documented during the last fiscal year (Other Goods and Services, Acquisition Card, Departmental Net Asset (Liabilities), and Other Operating Expenditures) and no major changes in the existing key controls and in existing processes which required a reassessment. The payroll business process is still under review and the new payroll process will be documented and assessed over the next fiscal years.

On-going monitoring program - As part of its rotational on-going monitoring plan, PCO completed its assessment or reassessment of controls related to the following key processes: Deposits, Other Goods and Services, Travel Expenses Departmental Net Asset (Liabilities), and Other Operating Expenditures. Overall, the controls are effective and risks are mitigated. However, some areas of improvement were noted and the following remediation actions are required to further strengthen the controls.

For Deposits:

- Improve the timeliness of deposits; and
- Strengthen the controls in place regarding the safeguard of assets and the segregation of duties.

Other Goods and Services:

- No remediation required.

PRIVY COUNCIL OFFICE

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2016-17

Travel Expenses:

- Prepare reference documentation and provide training across the organization;
- Improve the evidence of review kept on file;
- Simplify the various forms used in the process;
- Strengthen the controls in place regarding Travel Authorization Number (TAN) requests; and
- Improve monitoring of purchases made using an individual designated travel card.

Departmental Net Asset (Liabilities):

- Improve timeliness of the process and communication; and
- Improve the evidence of review and supporting documentation kept on file.

Other Operating Expenditures:

- No remediation required.

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

4. Departmental action plan

4.1 Progress during fiscal year 2016-17

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
• Deposits	Completed. Remediation actions are planned.
• Other Goods and Services	Completed.
• Travel Expenses	Completed. Remediation actions are planned.
• Departmental Net Asset (Liabilities)	Completed. Remediation actions are planned.
• Other Operating Expenditures	Completed.

In 2016-17, in addition to its on-going monitoring, PCO:

- Completed the Risk Assessment of PCO's Personal Information Holdings;
- Completed the Review of PCO's Performance Management Framework for Employees; and
- Completed the Audit of PCO's Accounts Payable Function.

PRIVY COUNCIL OFFICE

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2016-17

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 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
Entity Level		X	
Other Goods and Services		X	X
Travel Expenses			X
Payroll		X	
Financial Delegation	X		
Accounts Receivable and Deposits			X
Specified Purpose Accounts	X		
Payable at year-end (PAYE) and Monthly Accruals		X	
Contingent Liabilities		X	
Capital Assets	X		
Budgets Review Exercises		X	
Resource Allocation	X		
Vendors Creation		X	
Other Operating Expenditures			X
Departmental Net Asset (Liabilities)			X
Acquisition Cards	X		
Events	X		

Note: The plan was slightly updated in light of Phoenix issues. The new Payroll and PAYE processes are being implemented and PCO is in the process of documenting these new processes. Therefore, the monitoring of these two processes that was planned for fiscal year 2017-2018 has been postponed to fiscal year 2018-19.

PRIVY COUNCIL OFFICE

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2016-17

In addition in 2017-18, PCO will undertake the activities listed below.

- Complete the in-progress Audit of PCO's Parliamentary Returns Process;
- Complete the in-progress Audit of Cabinet Confidences;
- Complete the in-progress Self-Assessment of PCO Staffing Activities;
- Conduct the planned Audit of the Continuation of Constitutional Government;
- Conduct the planned Audit of Integrated Risk Management;
- Conduct the planned Audit of Financial forecasting;
- Conduct the planned Follow up Audit of IT Security; and
- Conduct the planned Audit of Governor in Council Appointments.