

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, 2018, 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 of Canada'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; 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 PCO 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, 2018 was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plans are summarized in the Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2017-18.

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 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 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

Ottawa, Canada

Matthew Shea
Chief Financial Officer

PRIVY COUNCIL OFFICE

Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)

2018

2017

Liabilities

Accounts payable and accrued liabilities (note 4)	37,313	29,307
Vacation pay and compensatory leave	8,583	5,878
Employee future benefits (note 5)	4,531	4,804
Total liabilities	50,427	39,989

Assets

Financial assets

Due from Consolidated Revenue Fund	31,552	25,316
Accounts receivable and advances (note 6)	8,456	4,796
Total net financial assets	40,008	30,112

Departmental net debt

10,419

9,877

Non-financial assets

Prepaid expenses	913	760
Inventory (note 7)	271	2,011
Tangible capital assets (note 8)	14,860	9,670
Total non-financial assets	16,044	12,441

Departmental net financial position

5,625

2,564

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

Matthew Shea
Chief Financial Officer

Ottawa, Canada

PRIVY COUNCIL OFFICE

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the Year Ended March 31

(in thousands of dollars)	Planned Results 2018	2018	2017
Expenses			
Advice and support to the Prime Minister and portfolio ministers	77,076	83,748	72,708
Advice and support to Cabinet and Cabinet committees	14,583	15,930	12,849
Public Service leadership and direction	4,832	3,962	4,159
Commissions of inquiry	34,147	19,869	3,170
Internal Services	72,110	95,449	77,044
Total Expenses	202,748	218,958	169,930
Revenues			
Miscellaneous revenues	17	25	33
Internal services support	75	75	73
Revenues earned on behalf of Government	(5)	(80)	(15)
Total Revenues	87	20	91
Net cost from continuing operations	202,661	218,938	169,839
Transferred operations (note 12)			
Expenses	-	37	-
Net cost of transferred operations		37	-
Net cost of operations before government funding and transfers	202,661	218,975	169,839
Government funding and transfers			
Net cash provided by Government of Canada		197,379	140,589
Change in due from the Consolidated Revenue Fund		6,236	13,921
Services provided without charge by other government departments (note 11a)		18,462	20,648
Transfer of overpayments		(22)	-
Transfer of liabilities to other government department (note 12)		(19)	-
Transfer of tangible capital assets (to) other government departments		-	(37)
Net cost of operations after government funding and transfers		(3,061)	(5,282)
Departmental net financial position - Beginning of year		2,564	(2,718)
Departmental net financial position - End of year		5,625	2,564

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)	2018	2017
Net cost of operations after government funding and transfers	(3,061)	(5,282)
Change due to tangible capital assets		
Acquisition of tangible capital assets	7,485	5,686
Amortization of tangible capital assets	(1,912)	(1,332)
Proceeds from disposal of tangible capital assets	-	(34)
Loss on disposal of tangible capital assets	(383)	(434)
Tangible capital asset adjustments	-	(37)
Total change due to tangible capital assets	5,190	3,849
Change due to inventories	(1,740)	1,791
Change due to prepaid expenses	153	161
Net increase (decrease) in departmental net debt	542	519
Departmental net debt - Beginning of year	9,877	9,358
Departmental net debt - End of year	10,419	9,877

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)	2018	2017
Operating activities		
Net cost of operations before government funding and transfers	218,975	169,839
Non-cash items:		
Amortization of tangible capital assets	(1,912)	(1,332)
Loss on disposal of tangible capital assets	(383)	(434)
Services provided without charge by other government departments (note 11a)	(18,462)	(20,648)
Transfer of overpayments	22	-
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	3,660	3,282
Increase (decrease) in prepaid expenses	153	161
Increase (decrease) in inventory	(1,740)	1,791
Decrease (increase) in accounts payable and accrued liabilities	(8,006)	(15,849)
Decrease (increase) in vacation pay and compensatory leave	(2,705)	(1,492)
Decrease (increase) in future employee benefits	273	(381)
Transfer of liabilities to other government department (note 12)	19	-
Cash used in operating activities	189,894	134,937
Capital investing activities		
Acquisitions of tangible capital assets (note 8)	7,485	5,686
Proceeds from disposal of tangible capital assets	-	(34)
Cash used in capital investing activities	7,485	5,652
Net cash provided by Government of Canada	197,379	140,589

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 was one active commission in 2017-18: National Inquiry into Missing and Murdered Indigenous Women and Girls.

To achieve its strategic outcome and deliver results for Canadians, PCO articulates its plans and priorities based on the core programs included 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 domestic and international 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 fiscal 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 the 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 are prepared using PCO'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 2017-2018 Departmental Plan. 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 2017-2018 Departmental Plan.

(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) Amounts 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) Revenues

- ✓ Revenues are recognized in the period the event giving rise to the revenues occurred.
- ✓ 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 or 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 as a reduction of PCO's gross revenues.

(e) Expenses

Expenses are recorded on an accrual basis:

- ✓ Transfer payments are recorded as an expense in the year the transfer is authorized and all eligibility criteria have been met by the recipient.
- ✓ 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 carrying value.

(f) Employee future benefits

- ✓ **Pension benefits:** Eligible employees participate in the Public Service Pension Plan, a multiemployer 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 contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- ✓ **Severance benefits:** The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits 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 initially recorded at cost and when necessary, an allowance for valuation is recorded to reduce the carrying value of accounts receivable to amounts that approximate their net recoverable value.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

2. Summary of significant accounting policies (continued)

(h) Non-financial assets

All tangible capital assets having an initial cost of \$5,000 or more are recorded at their acquisition cost. Tangible capital assets do not include immovable assets located on reserves as defined in the *Indian Act*, works of art, museum collection and Crown land to which no acquisition cost is attributable; and intangible assets.

Inventories are valued at cost and are comprised of spare parts and supplies held for future program delivery and are not primarily intended for resale. Inventories that no longer have service potential are valued at the lower of cost or net realizable value.

(i) Contingent liabilities

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

(j) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the Government's best estimate of the related amount at the end of the reporting period. The most significant items where estimates are used are contingent liabilities, 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)	2018	2017
Net cost of operations before government funding and transfers	218,975	169,839
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(1,912)	(1,332)
Loss on disposal of tangible capital assets	(383)	(434)
Services provided without charge by other government departments	(18,462)	(20,648)
Prepaid expenses previously charged to appropriation	(1,359)	(1,204)
Decrease (increase) in vacation pay and compensatory leave	(2,705)	(1,492)
Decrease (increase) in future employee benefits	273	(381)
Refund of prior years' expenditures	708	548
Other	67	45
Total items affecting net cost of operations but not affecting authorities	(23,773)	(24,898)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	7,485	5,686
Increase (decrease) in inventory	(1,740)	1,791
Increase (decrease) in prepaid expenses	1,512	1,365
Accounts receivable and advances	482	458
Total items not affecting net cost of operations but affecting authorities	7,739	9,300
Current year authorities used	202,941	154,241

(b) Authorities provided and used

(in thousands of dollars)	2018	2017
Authorities provided:		
Vote 1 - Operating expenditures	209,656	146,984
Statutory amounts	15,497	12,825
Less:		
Authorities available for future years	(6)	(34)
Lapsed: Operating expenditures	(22,206)	(5,534)
Current year authorities used	202,941	154,241

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)	2018	2017
Accounts payable - Other government departments and agencies	10,090	8,936
Accounts payable - External parties	26,508	19,931
Total accounts payable	36,598	28,867
Accrued liabilities	300	300
Other liabilities	415	140
Total accounts payable and accrued liabilities	37,313	29,307

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 employer 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 related 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 2017–18 expense amounts to \$13,662,883 (\$11,140,205 in 2016–17). For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016–17) the employee contributions and, for Group 2 members, approximately 1.00 times (1.08 times in 2016–17) the employee contributions.

PCO's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the Consolidated 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, 2018, 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)	2018	2017
Accrued benefit obligation - Beginning of year	4,804	4,423
Expenses for the year	118	770
Benefits paid during the year	(391)	(389)
Accrued benefit obligation - End of year	4,531	4,804

6. Accounts receivable and advances

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

(in thousands of dollars)	2018	2017
Receivables - Other government departments and agencies	6,805	3,998
Receivables - External parties	1,535	737
Employee advances	153	98
Subtotal	8,493	4,833
Allowance for doubtful accounts on receivables from external parties	37	37
Net accounts receivable and advances	8,456	4,796

7. Inventory

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

(in thousands of dollars)	2018	2017
Office equipment and furniture	49	87
Informatics equipment	222	1,924
Total inventory	271	2,011

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

8. Tangible capital assets

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

Cost						Accumulated Amortization					Net Book Value	
Capital Asset Class (in thousands of dollars)	Opening Balance	Acquisitions	Adjustments (1)	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments (1)	Disposals and Write-Offs	Closing Balance	2018	2017
Machinery and equipment	60	-	-	-	60	47	4	-	-	51	9	13
Informatics hardware	4,123	398	-	-	4,521	3,396	395	-	-	3,791	730	727
Informatics software	11,184	128	880	(383)	11,809	8,462	845	-	-	9,307	2,502	2,722
Other equipment	8,988	945	1,447	-	11,380	5,336	623	-	-	5,959	5,421	3,652
Motor vehicles	425	27	-	-	452	266	45	-	-	311	141	159
Work in progress - software	671	1,545	(880)	-	1,336	-	-	-	-	-	1,336	671
Work in progress - other	1,726	4,442	(1,447)	-	4,721	-	-	-	-	-	4,721	1,726
	27,177	7,485	-	(383)	34,279	17,507	1,912	-	-	19,419	14,860	9,670

(1) Adjustments include assets under construction that were transferred to the other categories upon completion of the assets.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

9. Contractual obligations

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

(in thousands of dollars)	2019	2020	2021	2022	2023	2024 and subsequent	Total
Professional and special services	18,674	371	282	-	-	-	19,327
Information	10,745	377	-	-	-	-	11,122
Transfer payments	1,928	-	-	-	-	-	1,928
Repair and maintenance	1,650	-	-	-	-	-	1,650
Rental	728	26	-	-	-	-	754
Transportation and communications	592	-	-	-	-	-	592
Acquisition of machinery and equipment	570	-	-	-	-	-	570
Utilities, materials and supplies	112	-	-	-	-	-	112
Total	34,999	774	282	-	-	-	36,055

10. Contingent liabilities

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

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 and the National Security and Intelligence Committee of Parliamentarians 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 at the carrying value in PCO's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2018	2017
Accommodation	10,145	12,241
Employer's contribution to the health and dental insurance plans	8,316	8,406
Worker's compensation	1	1
Total	18,462	20,648

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 are also not included in PCO's Statement of Operations and Departmental Net Financial Position.

b) Other transactions with other government departments and agencies

(in thousands of dollars)	2018	2017
Expenses	56,550	47,477
Revenues	75	73

12. Transfer to other government department

On June 22, 2017, the bill to establish the National Security and Intelligence Committee of Parliamentarians (NSICOP) received Royal Assent. Effective October 6, 2017, the Governor in Council, on recommendation of the Prime Minister, established NSICOP with the Order in Council 2017-1236, 2017-1237 and 2017-1238. NSICOP received its funding December 11, 2017. Accordingly, PCO transferred the following liabilities to NSICOP on December 11, 2017:

(in thousands of dollars)	2018
Liabilities:	
Accounts payable and accrued liabilities	19
Total liabilities transferred	19
Adjustments to the departmental net financial position	19

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	Commissions of inquiry	Internal Services	2018	2017
Expenses							
Salaries and employee benefits	72,503	14,760	3,402	8,887	37,487	137,039	112,726
Professional and special services	3,539	521	237	3,859	36,026	44,182	25,690
Accommodation	25	-	-	289	10,145	10,459	12,359
Transportation and communications	3,103	383	79	2,333	1,604	7,502	6,756
Information	2,919	82	222	3,529	141	6,893	3,849
Acquisition of machinery and equipment	482	27	2	476	5,030	6,017	5,568
Repair and maintenance	125	22	-	30	4,390	4,567	3,689
Amortization of tangible capital assets	72	4	-	-	1,836	1,912	1,332
Rentals	371	73	16	226	1,021	1,707	1,426
Utilities, materials and supplies	194	22	4	107	619	946	825
Transfer payments	-	-	-	110	-	110	-
Other	415	36	-	23	(2,850)	(2,376)	(4,290)
Total Expenses	83,748	15,930	3,962	19,869	95,449	218,958	169,930
Revenues							
Miscellaneous	1	-	-	-	24	25	33
Internal support services	-	-	-	-	75	75	73
Revenues earned on behalf of Government	(1)	-	-	-	(79)	(80)	(15)
Total Revenues	-	-	-	-	20	20	91
Net cost from continuing operations	83,748	15,930	3,962	19,869	95,429	218,938	169,839

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Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2017-18

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 Results Report

<https://www.canada.ca/en/privy-council/services/reports/departmental-plan/2018-19.html>

<https://www.canada.ca/en/privy-council/services/reports/departmental-results/2016-2017.html>

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.

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.

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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 Services and Procurement Canada (PSPC) 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;
- 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 2017-18

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 during the last fiscal year related to payroll (Priority Payments, Monthly Reconciliation for Overpayment, Year-End). The documentation of other high risk payroll business processes will continue in future years. In addition, three existing business processes were updated (Vendor Creation, Hospitality and Events). For the remaining business processes, there were no major changes in the existing key controls and in existing processes, which would require a reassessment. Finally, the risk assessment of three new business processes (Costing, Investment Planning and CFO Attestation) was performed and they will be documented next fiscal year.

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: Specified Purpose Account, Capital Assets, Acquisition Card and Events. 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. The Financial Delegation process was also supposed to be monitored in 2017-18. However, the process is currently being updated. Therefore, the monitoring of this business process was postponed to 2019-20.

Specified Purpose Account:

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

Capital Assets:

- Improve the evidence of review and supporting documentation kept on file;
- Update the frequency of the reconciliation of amortization expenses; and
- Continue to improve the internal process of transferring expenses to WIP at year-end.

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Acquisition Cards:

- Improve forms, spreadsheets and checklists;
- Improve the timeliness of card cancellation;
- Improve the evidence of review and supporting documentation kept on file;
- Improve the monthly monitoring of restricted transactions;
- Improve the timeliness of suspense account clearing; and
- Continue to improve the controls in place regarding the safeguard of the acquisition cards.

Events:

- Provide event training and communications to ensure all cost centers understand fully their financial responsibilities and accountabilities;
- Improve the evidence of review and supporting documentation kept on file; and
- Improve the monitoring of expenses against commitments.

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

4. Departmental action plan

4.1 Progress during fiscal year 2017-18

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
• Specified Purpose Accounts	Completed. Remediation actions are planned.
• Capital Assets	Completed. Remediation actions are planned.
• Acquisition Cards	Completed. Remediation actions are planned.
• Events	Completed. All remediation actions were addressed.

In 2017-18, in addition to its on-going monitoring, PCO:

- Completed the Audit of PCO's Parliamentary Returns Process; and
- Completed the Self-Assessment of PCO Staffing Activities.

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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 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 that a new Financial Delegation process will be implemented. The updated process will be documented in fiscal year 2018-2019 and monitoring will follow in fiscal year 2019-2020.

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In addition in 2018-19, PCO will undertake the activities listed below.

- Complete the in-progress Audit of Cabinet Confidences;
- 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;
- Conduct the planned Audit of PCO's Governor in Council Appointment Processes;
- Conduct the planned Review of PCO's Arrivals and Departures Processes; and
- Conduct the planned Fraud Risk Assessment.