

STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

CORRECTIONAL SERVICE CANADA

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2013, and all information contained in these statements rests with the management of the Correctional Service Canada (CSC). 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 CSC's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the CSC's *Departmental Performance Report*, is consistent with these financial statements.

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

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout CSC 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, 2013 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 CSC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of CSC'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 Commissioner.

The financial statements of CSC have not been audited.

Signed by: _____

Don Head, Commissioner
Ottawa, Canada
August 26, 2013

Signed by: _____

Liette Dumas-Sluyter, CMA, CIA
Chief Financial Officer

STATEMENT OF FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE CANADA

As at March 31

	2013	2012 Restated (note 16b)
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(in thousands of dollars)

Liabilities

Accounts payable and accrued liabilities (note 4)	218,217	268,101
Vacation pay and compensatory leave	60,020	63,568
Deferred revenue (note 5)	597	760
Employee future benefits (note 6b)	184,302	203,256
Inmate trust fund (note 7)	18,462	17,620
Total net liabilities	481,598	553,305

Assets

Financial assets

Due from Consolidated Revenue Fund	192,056	202,862
Accounts receivable, advances and loans (note 8)	39,055	32,701
Inventory held for resale (note 9)	12,655	11,644
Total gross financial assets	243,766	247,207

Financial assets held on behalf of Government

Accounts receivable, advances and loans (note 8)	(1,612)	(1,839)
Total financial assets held on behalf of Government	(1,612)	(1,839)

Total net financial assets	242,154	245,368
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Organizational net debt

239,444	307,937
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Non-financial assets

Prepaid expenses	76	80
Inventory not for resale (note 9)	36,100	36,533
Tangible capital assets (note 10)	1,849,933	1,565,019
Total non-financial assets	1,886,109	1,601,632

Organizational net financial position

1,646,665	1,293,695
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Contingent liabilities (note 11)
Contractual obligations (note 12)

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

Signed by: _____

Signed by: _____

Don Head, Commissioner
Ottawa, Canada
August 26, 2013

Liette Dumas-Sluyter, CMA, CIA
Chief Financial Officer

STATEMENT OF OPERATIONS AND ORGANIZATIONAL NET FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

	2013 Planned Results Restated (note 2a)	2013	2012 Restated (note 16b)
<i>(in thousands of dollars)</i>			
Expenses			
Custody	2,042,849	1,498,543	1,507,453
Correctional Interventions	629,219	545,735	607,155
Community Supervision	164,552	121,934	128,019
Internal Services	173,191	338,411	412,394
Expenses incurred on behalf of Government	(57)	84	(80)
Total expenses	3,009,754	2,504,707	2,654,941
Revenues			
Sales of Goods and Services	47,891	61,912	60,253
Miscellaneous Revenues	5,600	2,844	3,036
Revenues earned on behalf of Government	(5,600)	(3,432)	(4,309)
Total revenues	47,891	61,324	58,980
Net cost of operations before government funding and transfers	2,961,863	2,443,383	2,595,961
Government funding and transfers			
Net cash provided by Government	3,094,585	2,654,436	2,692,038
Change in due from Consolidated Revenue Fund	27,635	(10,806)	(3,387)
Services provided without charge by other government departments (note 13a)	124,953	151,398	150,834
Transfers of assets and liabilities to other government departments (note 14)	-	-	(3,448)
Transfers of assets and liabilities from/to other government departments	-	1,325	44
Net revenue from operations after government funding and transfers	(285,310)	(352,970)	(240,120)
Organizational net financial position – Beginning of year	1,299,570	1,293,695	1,053,575
Organizational net financial position – End of year	1,584,880	1,646,665	1,293,695

Segmented information (note 15)

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

STATEMENT OF CHANGE IN ORGANIZATIONAL NET DEBT (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

<i>(in thousands of dollars)</i>	2013 Planned results (note 2a)	2013	2012 Restated (note 16b)
Net revenue from operations after government funding and transfers	(285,310)	(352,970)	(240,120)
Change due to tangible capital assets			
Acquisition of tangible capital assets	311,568	375,600	279,996
Amortization of tangible capital assets	(126,124)	(93,947)	(83,414)
Proceeds from disposal of tangible capital assets	-	(1,272)	(1,393)
Net (loss) or gain on disposal of tangible capital assets including adjustments	-	3,208	2,308
Transfer to other government departments (note 14)	-	-	(8,426)
Transfer from/to other government departments	-	1,325	44
Total change due to tangible capital assets	185,444	284,914	189,115
Change due to inventories not for resale	298	(433)	(199)
Change due to prepaid expenses	45	(4)	(162)
Net decrease in organizational net debt	(99,523)	(68,493)	(51,366)
Organizational net debt – Beginning of year	265,296	307,937	359,303
Organizational net debt – End of year	165,773	239,444	307,937

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

STATEMENT OF CASH FLOW (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

	2013	2012 Restated (note 16b)
<i>(in thousands of dollars)</i>		
Operating activities		
Net cost of operations before government funding and transfers	2,443,383	2,595,961
Non-cash items		
Amortization of tangible capital assets	(93,947)	(83,414)
Net loss on disposal of tangible capital assets	(42)	(59)
Tangible capital assets adjustments	3,250	2,367
Services provided without charge by other government departments (note 13a)	(151,398)	(150,834)
Variations in Statement of Financial Position		
Decrease (increase) in accounts payable and accrued liabilities	49,884	(34,665)
Decrease (increase) in deferred revenue	163	(547)
Decrease (increase) in vacation pay and compensatory leave	3,548	(3,354)
Decrease in employee future benefits	18,954	68,827
Increase in Inmate Trust Fund	(842)	(280)
Increase in accounts receivable, advances and loans	6,581	20,988
Decrease in prepaid expenses	(4)	(162)
Increase in inventory	578	3,585
Transfer of other assets to other government departments (note 14)	-	49
Transfer of liabilities to other government departments (note 14)	-	(5,027)
Cash used in operating activities	2,280,108	2,413,435
Capital investment activities		
Acquisitions of tangible capital assets	375,600	279,996
Proceeds from disposal of tangible capital assets	(1,272)	(1,393)
Cash used in capital investment activities	374,328	278,603
Net cash provided by Government of Canada	2,654,436	2,692,038

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

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

1. Authority and Objectives

The constitutional and legislative framework that guides the Correctional Service Canada (CSC) is set out by the *Constitution Act 1982* and the *Corrections and Conditional Release Act (CCRA)*.

CSC, as part of the criminal justice system and respecting the rule of law, contributes to public safety by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure and humane control. It delivers its mandate under four major program activities:

Custody: This program activity ensures that offenders are provided with reasonable, safe, secure and humane custody while serving their sentence. This program activity provides much of the day-to-day needs for offenders in custody including a wide range of activities that address health and safety issues (such as providing food, clothing, mental health services, and physical health care). It also includes security measures within institutions including drug interdiction, and appropriate control practices to prevent security incidents;

Correctional Interventions: This program activity, occurs in both institutions and communities, and is necessary to help bring positive changes in behaviour and to successfully reintegrate offenders. This program activity aims to address problems that are directly related to offenders' criminal behaviour and that interfere with their ability to function as law-abiding members of society. This program activity also includes CORCAN, a Special Operating Agency of Correctional Service Canada, that employs federal offenders as its workforce and, in doing so, provides them with working skills and working habits necessary to compete in the workforce once released from federal custody;

Community Supervision: This program activity ensures eligible offenders are safely reintegrated into communities through the provision of housing and health services where required, and staff supervision for the duration of the offenders sentence. The expected results for this program activity are offenders who are reintegrated into the community as law-abiding citizens while maintaining a level of supervision, which contributes to public safety;

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 the 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 are not provided specifically to a program.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

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

CSC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to CSC 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 Organizational Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations and Organizational Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2012-13 Report on Plans and Priorities. The future-oriented financial statements for 2012-2013 were prepared prior to the adoption of the Treasury Board Accounting Standard 1.2 that requires departments disclose revenues net of non-respendable amounts and expenses net of those incurred on behalf of government. The future-oriented financial statements have been restated to reflect this change in presentation. The restatement resulted in a \$5,543,000 increase in net costs of operations before government funding and transfers. In addition, the future-oriented financial statements have also been reclassified to conform to the current year presentation.

b) Consolidation

These consolidated financial statements include the accounts of the sub-entity that the Commissioner is accountable for, which is CSC's revolving fund, CORCAN. The accounts of this sub-entity have been consolidated with those of CSC, and all inter-organizational balances and transactions have been eliminated.

c) Net Cash Provided by Government

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

d) Due from the Consolidated Revenue Fund (CRF)

Amounts due from 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 CSC is entitled to draw from the CRF without further authorities to discharge its liabilities.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

e) Revenues

- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the services are rendered or goods are sold.
- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds that have been received are recorded as deferred revenue, provided the organization has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- 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 CSC's liabilities. While the Commissioner 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 in reduction of the entity's gross revenues.

f) 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 contribution to the health and dental insurance plans, legal services and worker's compensation are recorded as operating expenses at their estimated cost;
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

g) Employee future benefits

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

h) Accounts and loans receivable from external parties

Accounts and loans receivables are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

i) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future event(s) 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 an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

j) *Environmental liabilities*

Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when CSC becomes aware of the contamination and is obligated, or is likely to be obligated, to incur such costs. If the likelihood of CSC's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

k) *Inventories*

- Inventory held for resale include raw materials, finished goods and work-in-progress. They belong to the CORCAN revolving fund and are valued at the lower of cost or net realizable value. The organization makes provisions for excess and obsolete inventory;
- Inventory not for resale consist of materials and supplies held for future program delivery and is valued at cost. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

l) *Tangible capital assets*

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. CSC does not capitalize intangibles, 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	Sub-Asset Class	Amortization Period
Buildings	Buildings	25 to 40 years
Works and infrastructure	Works and infrastructure	20 to 25 years
Machinery and equipment	Machinery and equipment	10 years
	Informatics hardware	3 to 4 years
	Informatics software	3 to 10 years
	Arms and weapons for defence	10 years
	Other equipment	10 years
Vehicles	Motor vehicles (non-military)	5 years
	Other vehicles	5 to 10 years
Leasehold improvements	Leasehold improvements	Term of lease

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

l) Tangible capital assets (continued)

Assets under construction 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.

m) 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 areas where estimates are used are contingent liabilities, environmental 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.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

3. Parliamentary Authorities

CSC receives most of its funding through annual Parliamentary authorities. Items recognized in the Statement of Operations and Organizational 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, CSC 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

	2013	2012 Restated (note 16b)
<i>(in thousands of dollars)</i>		
Net cost of operations before government funding and transfers	2,443,383	2,595,961
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets	(93,947)	(83,414)
Net loss on disposal of tangible capital assets	(42)	(59)
Services provided without charge by other government departments (note 13a)	(151,398)	(150,834)
Decrease (increase) in vacation pay and compensatory leave	3,548	(3,704)
Decrease (increase) in obligation for termination benefits (note 4)	37,676	(55,149)
Decrease in employee future benefits	18,954	67,452
Decrease in environmental liabilities and other provisions	1,825	4,758
Revenue not available for use	2,964	8,686
Other	3,862	285
	(176,558)	(211,979)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets	375,600	279,996
Increase in deferred Revenues	-	(547)
Increase (Decrease) in inventory	578	3,585
Decrease in prepaid expenses	(4)	(162)
	376,174	282,872
Current year authorities used	2,642,999	2,666,854

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

3. Parliamentary Authorities (continued)

b) Authorities provided and used

	2013	2012
<i>(in thousands of dollars)</i>		
Vote 25 – Operating expenditures	2,415,408	2,372,542
Vote 30 – Capital expenditures	547,554	567,552
Statutory amounts	243,483	254,425
	3,206,445	3,194,519
Less:		
Authorities available for future years	6,755	8,057
Lapsed authorities: Operating	446,696	297,383
Lapsed authorities: Capital	109,818	222,225
Lapsed authorities: Spending of Crown Assets	177	-
Current year authorities used	2,642,999	2,666,854

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-2013 Main Estimates, i.e., these authorities did not take into consideration any effect from the Deficit Reduction Action Plan. For CSC, it represents a reduction of \$85,547,000 for 2012-2013.

Collective agreements covering approximately 44% of CSC's workforce have expired (primarily with the Union of Canadian Correctional Officers). New agreements could result in significant financial pressure for CSC. An amount of approximately \$90,500,000 was earmarked as part of the Operating Budget Carry Forward to offset the potential cost of new agreements.

Furthermore, a reduction of \$265,800,000 relating to CSC Accommodation Plan was also not reflected in the 2012-2013 authorities. Through the Accommodation plan, CSC returned funds related to projected inmate population growth which has not materialized for the *Tackling Violent Crime Act* and the *Truth in Sentencing Act*.

4. Accounts Payable and Accrued Liabilities

The following table presents details of CSC's accounts payable and accrued liabilities:

	2013	2012
<i>(in thousands of dollars)</i>		
Accounts payable - Other government departments and agencies	53,733	45,337
Accounts payable - External parties	84,941	94,847
	138,674	140,184
Contingent liabilities (note 11)	5,318	7,143
Accrued liabilities (note 16a)	74,225	120,774
Total	218,217	268,101

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

5. Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties which are restricted to fund the expenditures related to specific projects, and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	2013	2012
<i>(in thousands of dollars)</i>		
Opening balance	760	213
Amounts received	29,327	9,714
Revenue recognized	(29,490)	(9,167)
Ending balance	597	760

6. Employee Future Benefits

a) Pension Benefits

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

Both the employees and CSC contribute to the cost of the Plan. The 2012-2013 expense amounts to \$170,895,973 (\$174,230,891 in 2011-2012), which represents approximately 1.7 times (1.8 in 2011-2012) the contributions by employees.

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

b) Severance benefits

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

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

6. Employee Future Benefits (continued)

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.

	2013	2012
<i>(in thousands of dollars)</i>		
Accrued benefit obligation, opening balance	203,256	272,083
Transferred to other government departments effective November 15, 2011 (note 14)	-	(1,451)
Expenses for the year	13,017	48,655
Benefits paid during the year	(31,971)	(116,031)
Accrued benefit obligation, closing balance	184,302	203,256

7. Inmate Trust Fund

Pursuant to section 111 of the *Corrections and Conditional Release Regulations*, the Inmate Trust Fund is credited with moneys received from inmates at the time of incarceration, net of earnings of inmates from employment inside institutions, moneys received for inmates while in custody, moneys received from sales of hobbycraft, moneys earned through work while on day parole, and interest. Disbursements may occur either at the time of release or for inmate purchases in line with rehabilitation programs.

	2013	2012
<i>(in thousands of dollars)</i>		
Opening balance	17,620	17,340
Receipts	45,858	44,394
Disbursements	(45,016)	(44,114)
Closing balance	18,462	17,620

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

8. Accounts Receivable, Advances and Loans

The following table presents details of accounts receivable, advances and loans:

	2013	2012
<i>(in thousands of dollars)</i>		
Receivables - other government departments and agencies	33,237	27,027
Receivables - external parties	7,117	7,051
Employee advances	343	321
Parolee loans and advances to individuals other than employees	117	161
	40,814	34,560
Allowance for doubtful accounts on receivables from external parties and parolee loans	(1,759)	(1,859)
Gross accounts receivable	39,055	32,701
Accounts receivable held on behalf of Government	(1,612)	(1,839)
Net accounts receivable	37,443	30,862

9. Inventory

The following table presents details of the inventory, measured at the lower of cost or net realizable value:

	2013	2012
<i>(in thousands of dollars)</i>		
Inventory held for resale		
Raw materials	5,577	6,007
Work in progress	384	785
Finished goods	7,724	5,599
	13,685	12,391
Provision for obsolete inventory	(1,030)	(747)
Total inventory held for resale	12,655	11,644

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

9. Inventory (continued)

	2013	2012
<i>(in thousands of dollars)</i>		
Inventory not for resale		
Supplies	15,979	15,371
Clothing	10,244	11,033
Building materials	4,525	4,294
Utilities	1,388	1,545
Other	3,964	4,290
Total inventory not for resale	36,100	36,533
Total	48,755	48,177

The cost of consumed inventory recognized as an expense in the Statement of Operations and Organizational Net Financial Position is \$106,601,544 in 2012-2013 (\$118,748,348 in 2011-2012). The value of consumed inventory for fiscal year 2011-2012 was adjusted from \$193,850,192 to \$118,748,348 to exclude the cost of items that are not held in inventory. This correction has no impact on the Statement of Operations and Organizational Net Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

10. Tangible Capital Assets

(in thousands of dollars)

<i>(in thousands of dollars)</i>												
Capital asset class	Cost					Accumulated Amortization					Net Book Value	
	Opening balance Restated (note 16b)	Acquisitions	Disposals and Write-off	Adjustments (1)	Closing balance	Opening balance	Amortization	Disposals and write-off	Adjustments (1)	Closing balance	2013	2012 Restated (note 16b)
Land	14,824	-	-	-	14,824	-	-	-	-	-	14,824	14,824
Buildings	1,582,705	-	(1,600)	149,739	1,730,844	774,148	54,601	(1,425)	(1,308)	826,016	904,828	808,557
Works and infrastructure	434,610	-	(1)	119,205	553,814	338,290	22,357	(1)	1,307	361,953	191,861	96,320
Machinery and equipment	232,901	5,597	(6,933)	(35,395)	196,170	106,223	8,196	(6,447)	2,130	110,102	86,068	126,678
Vehicles	55,716	6,229	(4,839)	38	57,144	29,311	7,040	(4,186)	28	32,193	24,951	26,405
Leasehold improvements	16,695	-	-	1,962	18,657	5,951	1,753	-	-	7,704	10,953	10,744
Assets under construction	481,491	363,774	-	(228,817)	616,448	-	-	-	-	-	616,448	481,491
Total	2,818,942	375,600	(13,373)	6,732	3,187,901	1,253,923	93,947	(12,059)	2,157	1,337,968	1,849,933	1,565,019

(1) This column includes assets under construction of \$250,691,045 (\$20,590,726 in 2011-2012) that were transferred to the other categories upon completion of the assets. This column also includes assets received from the Parole Board of Canada for an amount of \$262,124 and from Shared Services Canada for an amount of \$171,605. Furthermore, an adjustment was made to reduce CSC's net book value of assets transferred to Shared Services Canada in 2011-2012 for an amount of \$891,163.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

11. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into two categories as follows:

a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where CSC is obligated or likely to be obligated to incur such costs. CSC has identified approximately 40 sites (42 in 2011-2012) where such action is possible and for which a liability of \$3,697,562 (\$5,640,983 in 2011-2012) has been recorded in accrued liabilities. CSC has estimated additional clean-up costs of \$690,000 (\$771,000 in 2011-2012) that are not accrued, as these are not considered likely to be incurred at this time. CSC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by CSC in the year in which they become likely and are reasonably estimable.

b) Claims and litigations

Claims have been made against CSC in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. CSC 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. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$1,062,000 (\$1,650,000 in 2011-2012) at March 31, 2013.

12. Contractual Obligations

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

	2014	2015	2016	2017	2018 and thereafter	Total
<i>(in thousands of dollars)</i>						
Acquisition of goods and services	91,063	14,917	11,643	131	-	117,754

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

13. Related Party Transactions

CSC is related as a result of common ownership to all government departments, agencies, and Crown corporations. CSC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, CSC 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, CSC received services without charge from certain common services organizations related to accommodation, legal services, the employer's contribution to the health and dental insurance plans, and worker's compensation coverage. These services without charge have been recorded in CSC's Statement of Operations and Organizational Net Financial Position as follows:

	2013	2012
<i>(in thousands of dollars)</i>		
Employer's contribution to the health and dental insurance plans	127,033	127,393
Accommodation	17,982	16,303
Workers' compensation	4,786	5,361
Legal services	1,597	1,777
Total	151,398	150,834

The Government has centralized some of its administrative activities for efficient, cost-effective, 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 and audit services provided by the Office of the Auditor General, are not included in CSC's Statement of Operations and Organizational Net Financial Position.

b) Other transactions with related parties

	2013	2012
<i>(in thousands of dollars)</i>		
Expenses – Other government departments and agencies	354,172	367,002
Revenues – Other government departments and agencies	37,069	39,846

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

14. Transfers from/to other government departments

Transfer to Shared Services Canada

Effective November 15, 2011, CSC transferred responsibility for the control and supervision of email, data centres and networks to Shared Services Canada (SSC) in accordance with Order-in-Council 2011-1297, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, CSC transferred the following assets and liabilities related to these activities to SSC on November 15, 2011:

	2012
<i>(in thousands of dollars)</i>	
Assets:	
Tangible capital assets (net book value) (note 10)	(8,426)
Accounts receivable	(46)
Other assets	(3)
Total assets transferred	(8,475)
Liabilities:	
Accounts payables and accrued liabilities	3,196
Vacation pay and compensatory leave	380
Employee future benefits (note 6)	1,451
Total liabilities transferred	5,027
Adjustment to the organizational net financial position:	(3,448)

The operating results of the transferred activities, prior to November 15, 2011, were not disclosed in the Statement of Operations and Organizational Net Financial Position as the financial data could not be established at a reasonable cost.

During the transition period, which is after November 15, 2011, CSC continued to administer the transferred activities on behalf of SSC. The administered expenses amounted to \$16,663,109 for the year. These expenses are not recorded in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

15. Segmented Information

Presentation by segment is based on the Organization's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major objects of expense and by major types of revenue. The segment results for the period are as follows:

	2013					2012 Restated (note 16b)
(in thousands of dollars)						
	Custody	Correctional Interventions	Community Supervision	Internal Services	Total	Total
Transfer payments						
Non-profit organizations	-	638	-	-	638	1,252
Individuals	206	-	-	-	206	232
Total transfer payments	206	638	-	-	844	1,484
Operating expenses						
Salaries and employee benefits	1,075,238	424,850	15,396	260,216	1,775,700	1,895,601
Professional and special services	100,959	52,759	94,444	33,570	281,732	288,356
Utilities, maintenance and supplies	109,728	8,652	2,105	8,308	128,793	133,786
Amortization of tangible capital assets	91,840	2,107	-	-	93,947	83,414
Repairs and maintenance	55,763	1,164	76	725	57,728	68,806
Machinery and equipment	15,159	2,518	35	6,617	24,329	32,735
Travel	7,094	4,795	637	7,631	20,157	34,395
Payment in lieu of taxes	28,757	-	-	-	28,757	28,606
Inmate pay	-	22,335	-	-	22,335	23,022
Cost of goods sold	-	18,879	-	-	18,879	16,941
Accommodation	-	-	9,129	8,853	17,982	16,303
Telecommunications	296	2	20	69	387	6,252
Rentals	10,623	2,086	58	7,520	20,287	15,255
Relocation	1,628	374	-	3,881	5,883	8,410
Net loss (gain) on disposal of tangible capital assets	(128)	2	-	168	42	59
Other	1,380	4,574	34	853	6,841	1,596
Total operating expenses	1,498,337	545,097	121,934	338,411	2,503,779	2,653,537
Sub-Total Expenses	1,498,543	545,735	121,934	338,411	2,504,623	2,655,021
Expenses incurred on behalf of Government	(25)	-	-	109	84	(80)
Total Expenses	1,498,518	545,735	121,934	338,520	2,504,707	2,654,941
Revenues						
Sales of goods and services	588	61,324	-	-	61,912	60,253
Miscellaneous Revenues	2,090	653	5	96	2,844	3,036
Revenues earned on behalf of Government	(2,678)	(653)	(5)	(96)	(3,432)	(4,309)
Total Revenues	-	61,324	-	-	61,324	58,980
Net cost of operations before government funding and transfers	1,498,518	484,411	121,934	338,520	2,443,383	2,595,961

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the Year Ended March 31

16. Accounting changes

a) Change in an accounting estimate

In Canada's Economic Action Plan 2012, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, CSC has recorded at March 31, 2013 an obligation for termination benefits for an amount of \$17,473,155 (\$55,149,153 in 2011-2012) as part of accrued liabilities to reflect the estimated workforce adjustment costs. During fiscal year 2012-2013, CSC reduced its estimation of the obligation for termination benefits as part of the accrued liabilities (note 4). The methodology used to determine the obligation was refined and actual number of employees receiving an options became available. This change in accounting estimate results in decreased accrued liabilities of approximately \$37,675,998.

b) Correction of an error relating to prior period financial statements

During 2012-2013, CSC identified tangible capital assets that should have been expensed over the last five fiscal years according to Accounting Policies - Capital Assets. The correction represents a decrease to tangible capital assets in 2011-2012 and prior years. Consequently, the comparative financial statements presented for the year ended March 31, 2012 have been restated.

<i>(in thousands of dollars)</i>	2012 As previously stated	Effect of change	2012 Restated
Statement of Financial Position:			
Non-financial assets			
Tangible capital assets (note 10)	1,582,773	(17,754)	1,565,019
Organizational net financial position	1,311,449	(17,754)	1,293,695
Statement of Operations and Organizational Net Financial Position			
Total Expenses	2,654,038	903	2,654,941
Net cost of operations before government funding and transfers	2,595,058	903	2,595,961
Net revenue from operations			
after government funding and transfers	(241,023)	903	(240,120)
Organizational net financial position – Beginning of year	1,070,426	(16,851)	1,053,575
Organizational net financial position – End of year	1,311,449	(17,754)	1,293,695
Statement of Change in Organization Net Debt			
Net revenue from operations			
after government funding and transfers	(241,023)	903	(240,120)
Acquisition of tangible capital assets	280,899	(903)	279,996
Statement of Cash Flow			
Net cost of operations before government funding and transfers	2,595,058	903	2,595,961
Acquisition of tangible capital assets	280,899	(903)	279,996
Notes to the financial statements			
Parliamentary Authorities (note 3a)			
Acquisition of tangible capital assets	280,899	(903)	279,996
Net cost of operations before government funding and transfers	2,595,058	903	2,595,961
Tangible Capital Assets (note 10)			
Machinery and Equipment	144,432	(17,754)	126,678
Segmented Information (note 15)			
Machinery and Equipment	31,832	903	32,735

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2012-2013 AND THE ACTION PLAN OF CORRECTIONAL SERVICE CANADA

1. INTRODUCTION

This document provides summary information on the measures taken by Correctional Service Canada (CSC) to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management and assessment results and related action plans.

Detailed information on Correctional Service Canada's authority, mandate, and program activities can be found in the [Departmental Performance Report](#) and the [Report on Plans and Priorities](#).

2. DEPARTMENTAL SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING

CSC recognizes the importance of setting the tone from the top to ensure that employees throughout the organization understand their roles and responsibilities in maintaining an effective system of ICFR.

2.1. Key Positions, Roles and Responsibilities

CSC has key positions and committees responsible for maintaining and reviewing the effectiveness of its system of ICFR.

Commissioner – The Commissioner, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Commissioner chairs the Departmental Audit Committee and the Executive Committee.

Chief Financial Officer (CFO) – The CFO reports directly to the Commissioner and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including an annual assessment.

Senior Organizational Managers – Senior organizational managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of systems of ICFR within their mandate.

Chief Audit Executive (CAE) – The CAE reports directly to the Commissioner and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

Chief Information Officer (CIO) – The CIO is the organizational lead for IT system applications, IT security, Information Management and contributes to the assessments of IT systems and application controls.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

Departmental Audit Committee (DAC) – The DAC is an advisory committee that provides objective advice and recommendations to the Commissioner regarding the sufficiency, quality and results of assurance on the adequacy and functioning of CSC's risk management, control and governance framework and processes. The DAC, established in 2006, includes the Commissioner and three external members.

2.2. Key Measures taken by CSC

CSC's control environment also includes a series of measures, approved by the Commissioner and Executive Committee, to enable its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. Key elements of the control environment in place at CSC include:

- CSC Standards of Professional Conduct and Code of Discipline;
- CSC Values Statement;
- CSC Financial Control Framework which sets out the governance structure, values and principles and the roles and responsibilities necessary to ensure the prudent stewardship of public funds, the safeguarding of public assets, the effective, efficient and economical use of financial resources and the reliability of financial reporting;
- CSC Integrated Risk Management Framework that provides the organization with a frame for defining and managing risk at corporate and operational levels and includes the Corporate Risk Profile;
- Fraud Risk Management Committee to oversee the implementation and monitoring of CSC's anti-fraud program and to advise CSC's Executive Committee in the domain of fraud prevention and related matters.
- Three year risk based internal audit plan;
- Annual employee performance agreements and learning plans for all employees;
- A dedicated division under the CFO on internal financial controls (IFC); and
- Documentation of main business processes and sub-processes with related key risk and controls to support the management and oversight of its system of internal control over financial reporting (ICFR).

2.3. Service Arrangements relevant to financial statements

CSC relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of goods and services, as per CSC's Delegation of Authority and provides accommodation services;
- Treasury Board Secretariat provides CSC with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to CSC;
- Shared Services Canada (SSC) provides IT infrastructure services to CSC in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between SSC and CSC; and
- Human Resources and Skills Development Canada provides Worker's Compensation assessment services.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

3. CSC's assessment results during fiscal year 2012-2013

In 2012-13, CSC focused on completing the documentation and advancing or completing the design effectiveness of financial controls embedded in its significant business processes and sub-processes. Where design assessment had been completed and remediation actions implemented, CSC completed the operating effectiveness testing of the key controls included in those business processes.

3.1 Design effectiveness testing of key controls

Prior to performing design effectiveness testing, all documentation for the significant business processes and sub-processes is completed. Design effectiveness testing verified that the appropriate controls were in place and represented actual practice and ensured the alignment of key controls with the risks they are aimed to mitigate. Walkthroughs were an important element of the evaluation of design by CSC. It involved asking questions to the individual(s) performing the control and obtaining corroborating evidence to support their answers. By performing walkthroughs at the design effectiveness stage, any documented key controls which are found not to be effective, are addressed through a management action plan and corrected prior to performing operating effectiveness testing.

Entity-level controls

Entity-level controls have a pervasive effect on an organization and can have significant consequences on the overall assessment of the effectiveness of internal control over financial reporting. Building on documentation and assessments completed in previous years, entity level controls documentation was updated along with the risk assessment, the communication and monitoring processes. Using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, CSC identified and documented 75 control objectives and corresponding control statements demonstrating how the organization addresses each control objective. Design and operating effectiveness testing were advanced and will be completed in fiscal year 2013-14.

Information technology general controls (ITGCs)

Using the information and data collected from various assessments performed in previous years by CSC's Internal Audit Sector and outside firms, the organization commenced the documentation and design assessment of its ITGCs. A financial system risk assessment was conducted to clarify and validate the scope of the ITGCs that required review in order to meet the requirements of the Treasury Board *Policy on Internal Control (PIC)*. A list of relevant applications to financial reporting was compiled and each system was mapped against the applicable business process and the financial statement line item impacted. Existence of critical functionality, automated controls and interfaces were then determined for each system. Based on this

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

information an analysis was performed to determine whether each system posed a significant and material risk to financial reporting and CSC's operations. Both financial and operational risks were assessed and an aggregate risk for each system was established. A priority rating of high, medium or low was assigned to each financial application that was determined to be in scope. The priority assigned was in relation to the relevance that the system has on PIC compliance and the level of risk associated with the system. Since the Integrated Financial and Material Management System (IFMMS) was the only system identified as a high priority, it will be the system that will be assessed in 2013-14.

Business process controls

As in previous years, CSC continued to maintain and update a multi-year work plan that contains the timelines for the ICFR assessments for its business processes, listed in 4.2, where the priority is set in accordance with the results from the annual risk assessment. During 2012-13, CSC completed the documentation and substantially advanced or completed the design effectiveness testing for the following business processes:

- Payables/Payments
- Amortization
- Tangible capital assets
- Interdepartmental settlements
- Financial Statement Close/ Reconciliations and GL adjustments
- Procurement/Contracting

As a result of design effectiveness testing, CSC identified the following improvement opportunities:

- Improving the segregation of duties in regards to the access controls for setting-up or modifying vendors and the ability to enter invoices in the financial system;
- Developing standard procedures for the set-up and modification of vendors in the accounts payable system and ensuring the maintenance of an audit trail;
- Implementing a risk-based system of post-payment verification for non-pay related payments;
- Establishing an organizational sampling framework for both pay and non-pay related payments;
- Reviewing the amortization calculation including the establishment of benchmarks for reasonableness;
- Performing complete reconciliations between the Accounts Payable sub-ledger, the Fixed Assets module and the General Ledger; and
- Developing a process by which all Interdepartmental settlements are certified with Section 33.

Management action plans have been developed to implement changes by the end of the fiscal year 2013-14.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

3.2 Operating effectiveness testing of key controls

In 2012-13, CSC continued operating effectiveness testing of its salary controls. Required remediation has been completed for the following:

- Standard operating procedures were developed to ensure regular monitoring and follow-ups are performed for the process of salary overpayments for current and former employees and roles and responsibilities for both Finance and Human Resources staff have been defined and communicated;
- Delegation of Section 34 of the Financial Administration Act (FAA) to all compensation advisors performing the verification function was completed to ensure that the pay procedures were aligned with the common government-wide financial management pay administration guideline and the full implementation of the Pay Administration Model (PAM);
- Post-payment verification of pay transactions results are communicated within 3 months following the end of the testing period; and
- National procedures were developed to ensure consistent application of the compensation transaction peer verification process.

For the following items, remediation will be completed in 2013-14:

- Strengthening access controls (segregation of duties) to the Regional Pay System and the monitoring of these controls;
- Implementing databases for all specimen signature cards to allow easy access for Human Resources and Finance staff for verification of financial authorities; and
- Developing procedures to discontinue the use of the batch authorization feature in the Regional Pay System which may allow high-risk pay transactions to be authorized without pre-payment verification.

Operating effectiveness testing of the travel process was deferred until 2013-14 due to the introduction, in mid-year, of an automated system to manage travel more efficiently. The documentation for the Travel process will be modified in 2013-14 to reflect the changes and operating effectiveness testing will be performed on all key controls within the travel process.

For the Hospitality process, one remediation item was still outstanding at the end of 2012-13 from the last round of operating effectiveness testing. The financial Directive for the Verification of Hospitality Expenditures will be updated in 2013-14 to reflect policy changes introduced in October 2012 and August 2013 in the Treasury Board's revised *Directive on Travel, Hospitality, Conference and Event Expenditures*. Key financial controls will be retested, in accordance with CSC's multi-year plan.

3.3 On-going monitoring of key controls

On-going monitoring is a systematic, integrated approach to monitoring in support of continuous improvement of ICFR, which includes periodic risk-based assessments and timely remediation. In the current year, CSC completed planned on-going monitoring of the key controls within the allowance for doubtful accounts process. Controls were found to be effective.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

4. CSC's Action Plan

4.1 Progress during fiscal year 2012-2013

During 2012-2013, CSC has continued to make significant progress in assessing and improving its key controls. Below is a summary of the main progress made by CSC based on the plans identified in the previous fiscal year's annex:

Element in previous year's action plan	Status
Entity-level controls (including Budgeting and Forecasting process) – documentation	Documentation completed for entity-level controls and commenced for the budgeting and forecasting processes. Design-effectiveness substantially advanced for the entity-level controls. No significant deficiencies to report to date.
IT general controls - documentation	ITGC - documentation advanced for the financial system risk assessment to clarify and validate the scope of the ITGCs that required review. Documentation and assessment for the Integrated Financial and Material Management System (IFMMS) will be completed by the end of 2013-14.
Salary – operating effectiveness testing and issue the Directive for the Verification of Pay transactions.	Operating effectiveness testing completed and remediation completed on several deficiencies and others remaining will be completed in 2013-14. A Directive for the Verification of Pay transactions was issued in March 2013.
Travel – operating effectiveness testing	Operating effectiveness testing was deferred until 2013-14 due to the introduction of an automated system to manage travel where several manual key controls were automated.
Hospitality– operating effectiveness testing	Remediation of deficiencies substantially advanced in 2012-13. One item remaining will be completed in 2013-14 with the release of the updated financial Directive for the Verification of Hospitality Expenditures.
Interdepartmental Settlements – documentation and design effectiveness testing	Documentation and design effectiveness testing substantially completed with remediation of deficiencies noted to be completed in 2013-14.
Procurement/Contracting – documentation and design effectiveness testing	Documentation completed and design effectiveness substantially completed. No deficiencies noted to date.
Payables/Payments – documentation and design effectiveness testing	Documentation completed and design effectiveness substantially completed. Deficiencies noted to date will be remediated in 2013-14.
Tangible Capital Assets - documentation	Documentation completed for tangible capital assets other than real property. Design effectiveness substantially completed for CORCAN and no deficiencies noted.

**ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY
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Element in previous year's action plan	Status
Amortization - documentation	Documentation and design effectiveness completed for manual controls. Automated application controls contained in the process will be assessed following the completion of the assessment of the ITGCs for IFMMS. Remediation of deficiencies identified to date will be completed in 2013-14.
Financial Statement close - documentation	Documentation completed and design effectiveness substantially advanced. Remediation of deficiencies noted to date to be completed in 2013-14.
Inventory – documentation and testing in 2013-14	Documentation commenced in 2012-13 and will be completed with its design testing in 2013-14.
Assets Under Construction - documentation	Documentation completed for in-house developed software only. Documentation for assets other than in-house developed software will be completed in 2013-14 along with the design effectiveness testing.
Reconciliations/GL Adjustments - documentation	Documentation completed and design effectiveness testing substantially advanced. Deficiencies noted to date will be remediated in 2013-14.
Sales/Receivables/Receipts – documentation and testing in 2013-14 and 2014-15 respectively	Documentation substantially advanced in 2012-13 and will be completed along with design effectiveness testing in 2013-14.
Allowance for doubtful Accounts – on-going monitoring	On-going monitoring completed in 2012-13 with no deficiencies to report. Future testing will be performed based on CSC's multi-year plan.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

4.2 Status and action plan for the next fiscal year and subsequent years

Building on progress to date, CSC is positioned to substantially complete the assessment of the operating effectiveness testing for all of its significant business processes and sub-processes, including Entity Level Controls and ITGCs by the end of 2014-15. The timelines are contingent on the level of effort required to address any gaps that will be identified in future design and operating effectiveness testing. CSC will continue to apply its rotational on-going monitoring plan to reassess control performance on a risk basis across all control areas. The status and action plan for the completion of the identified control areas for the next and subsequent fiscal years is as follows:

Key Control Areas	Assessment elements		
	Design effectiveness testing and remediation plan	Operational effectiveness testing and remediation plan	On-going monitoring rotation ⁱ
Entity-level controls	2013-14	2013-14	Future Years
Budgeting and Forecasting	2013-14	2014-15	Future Years
IT general controls	2013-14	2014-15	Future Years
Salary	Complete	Complete	2013-14
Travel	Complete	Complete	2013-14
Hospitality	Complete	Complete	2014-15
CSC/CORCAN Intradepartmental Transactions	Complete	2014-15	Future Years
Departmental Bank Accounts	Complete	Complete	ii
Interdepartmental Settlements	2013-14	2013-14	Future Years
Procurement/Contracting	2013-14	2013-14	Future Years
Payables/Payments	2013-14	2014-15	Future Years
Tangible Capital Assets	2013-14	2014-15	2015-16
Amortization	Complete	2013-14	Future Years
Financial Statement close	2013-14	2014-15	2015-16
Inmate Trust Fund	2014-15	2015-16	Future Years
Inventory	2013-14	2014-15	Future Years
Assets Under Construction	2013-14	2014-15	2015-16
Reconciliations/GL Adjustments	2013-14	2014-15	2015-16
Sales/Receivables/Receipts	2013-14	2014-15	Future Years
Allowance for doubtful Accounts	Complete	Complete	Future Years
Contingent Liabilities	2013-14	2014-15	Future Years
Environmental Liabilities	2013-14	2014-15	Future Years

ⁱ The frequency of the on-going monitoring of key control areas is risk-based and may occur over a multi-year cycle.

ⁱⁱ The Departmental Bank Accounts (DBA) will no longer be in use as of December 31st, 2013. Additional Priority Print Sites (PPS) will be implemented throughout CSC to replace the DBAs as a method for processing payments. PPS will be assessed as a sub-process in the Payables/Payment process.