

STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2021, and all information contained in these statements rests with the management of the Correctional Service of Canada (CSC). These consolidated 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 consolidated financial statements. Some of the information in the consolidated 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 CSC's *Departmental Results Report*, is consistent with these consolidated 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, 2021 was completed in accordance with the Treasury Board *Policy on Financial Management* 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 consolidated financial statements to the Commissioner.

The consolidated financial statements of CSC have not been audited.

Original Signed by

Anne Kelly,
Commissioner

Ottawa, Canada
August 24, 2021

Original Signed by Ghislain Sauvé for

Tony Matson,
Chief Financial Officer

CORRECTIONAL SERVICE OF CANADA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

As at March 31

(in thousands of dollars)

	2021	2020
Liabilities		
Accounts payable and accrued liabilities (note 4)	810,298	735,687
Vacation pay and compensatory leave	109,652	74,341
Employee future benefits (note 5)	52,428	58,919
Inmate Trust Fund (note 6)	21,075	17,500
Environmental liabilities (note 7)	2,657	2,649
Deferred revenue (note 8)	181	251
Total net liabilities	996,291	889,347
Assets		
Financial assets		
Due from Consolidated Revenue Fund	387,987	291,240
Accounts receivable, advances and loans (note 9)	107,845	111,107
Inventories held for resale (note 10)	14,034	19,092
Total gross financial assets	509,866	421,439
Financial assets held on behalf of Government		
Accounts receivable, advances and loans (note 9)	(823)	(929)
Total financial assets held on behalf of Government	(823)	(929)
Total net financial assets	509,043	420,510
Organizational net debt	487,248	468,837
Non-financial assets		
Inventories not for resale (note 10)	76,980	40,576
Tangible capital assets (note 11)	2,324,640	2,325,426
Total non-financial assets	2,401,620	2,366,002
Organizational net financial position	1,914,372	1,897,165

Contractual obligations ([note 12](#))Contingent liabilities and assets ([note 13](#))

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

Original Signed by

 Anne Kelly,
Commissioner
Ottawa, Canada
August 24, 2021

Original Signed by Ghislain Sauv   for

 Tony Matson,
Chief Financial Officer

CORRECTIONAL SERVICE OF CANADA

CONSOLIDATED STATEMENT OF OPERATIONS AND ORGANIZATIONAL NET FINANCIAL POSITION (unaudited)

For the Year Ended March 31
(in thousands of dollars)

	2021 Planned Results	2021	2020
Expenses			
Custody	1,641,566	1,938,239	2,034,506
Correctional Interventions	552,401	607,663	558,402
Community Supervision	167,953	181,369	179,864
Internal Services	350,737	412,532	367,909
Expenses incurred on behalf of Government	-	(37)	(167)
Total expenses	2,712,657	3,139,766	3,140,514
Revenues			
Sales of goods and services	70,348	40,306	52,027
Miscellaneous revenues	3,940	6,083	4,297
Revenues earned on behalf of Government	(3,940)	(3,098)	(4,297)
Total revenues	70,348	43,291	52,027
Net cost of operations before government funding and transfers	2,642,309	3,096,475	3,088,487
Government funding and transfers			
Net cash provided by Government		2,839,091	2,628,932
Change in due from Consolidated Revenue Fund		96,747	3,013
Services provided without charge by other government departments (note 14a)		177,801	165,464
Transfer of the transition payments for implementing salary payments in arrears		(2)	(1)
Transfer of tangible capital assets (to) other government departments (note 14c)		-	(1)
Other transfers of assets and liabilities from other government departments (note 14c)		45	21
Total Government Funding and Transfers		3,113,682	2,797,428
Net (revenue from) cost of operations after government funding and transfers		(17,207)	291,059
Organizational net financial position – Beginning of year		1,897,165	2,188,224
Organizational net financial position – End of year		1,914,372	1,897,165

Segmented information (note 15)

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

CONSOLIDATED STATEMENT OF CHANGE IN ORGANIZATIONAL NET DEBT (unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2021	2020
Net cost of (revenue from) operations after government funding and transfers	(17,207)	291,059
Change due to tangible capital assets		
Acquisition of tangible capital assets (note 11)	124,488	167,468
Amortization of tangible capital assets (note 11)	(122,248)	(125,833)
Proceeds from disposal of tangible capital assets	(396)	(1,103)
(Loss) gain on disposal of tangible capital assets	(20)	336
Tangible capital assets adjustments (note 11)	(2,610)	(42,710)
Transfer (to) other government departments (note 14c)	-	(1)
Total change due to tangible capital assets	(786)	(1,843)
Change due to inventories not for resale	36,404	2,487
Change due to prepaid expenses	-	-
Net increase in organizational net debt	18,411	291,703
Organizational net debt – Beginning of year	468,837	177,134
Organizational net debt – End of year	487,248	468,837

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

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

For the Year Ended March 31
(in thousands of dollars)

	2021	2020
Operating activities		
Net cost of operations before government funding and transfers	3,096,475	3,088,487
Non-cash items		
Amortization of tangible capital assets (note 11)	(122,248)	(125,833)
Net (loss) gain on disposal of tangible capital assets	(20)	336
Tangible capital assets adjustments (note 11)	(2,610)	(42,710)
Services provided without charge by other government departments (note 14a)	(177,801)	(165,464)
Transition payments for implementing salary payments in arrears	2	1
Variations in Consolidated Statement of Financial Position		
(Increase) in accounts payable and accrued liabilities (note 4)	(74,611)	(310,466)
(Increase) in vacation pay and compensatory leave	(35,311)	(12,399)
Decrease in employee future benefits (note 5)	6,491	4,032
(Increase) decrease in Inmate Trust Fund (note 6)	(3,575)	232
(Increase) decrease in environmental liabilities (note 7)	(8)	562
Decrease in deferred revenue (note 8)	70	386
(Decrease) increase in accounts receivable, advances and loans (note 9)	(3,156)	18,521
Increase in inventories (note 10)	31,346	6,903
Transfer of assets (from) other government departments (note 14c)	(45)	(21)
Cash used in operating activities	2,714,999	2,462,567
Capital investing activities		
Acquisitions of tangible capital assets (note 11)	124,488	167,468
Proceeds from disposal of tangible capital assets	(396)	(1,103)
Cash used in capital investing activities	124,092	166,365
Net cash provided by Government of Canada	2,839,091	2,628,932

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

1. Authority and Objectives

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

The purpose of the federal correctional system, as defined by law, is to contribute to the maintenance of a just, peaceful and safe society by carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders; and by assisting the rehabilitation of offenders and their reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community (*Corrections and Conditional Release Act*, s.3).

It delivers its mandate under the following core responsibilities:

Care and Custody: CSC provides for the safety, security and humane care of inmates, including day-to-day needs of inmates such as food, clothing, accommodation, mental health services, and physical health care. It also includes security measures within institutions such as drug interdiction, and appropriate control practices to prevent incidents;

Correctional Interventions: CSC conducts assessment activities and program interventions to support federal offenders' rehabilitation and facilitate their reintegration into the community as law-abiding citizens. CSC also engages Canadian citizens as partners in its correctional mandate, and provides services to victims of crime;

Community Supervision: CSC supervises offenders in the community and provides structure and services to support their safe and successful reintegration into the community. Services include accommodation options, community health services, and the establishment of community partnerships. CSC manages offenders on parole, statutory release, and long-term supervision orders; and

Internal Services: Internal Services are those groups of related activities and resources that the federal government considers to be services in support of programs and/or required to meet corporate obligations of an organization. Internal Services refers to the activities and resources of the ten distinct service categories that support program delivery in the organization, regardless of the Internal Services delivery model in a department. The ten service categories are: Management and Oversight Services; Communications Services; Legal Services; Human Resource Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Management Services; and Acquisition Management Services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using CSC'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 Consolidated Statement of Operations and Organizational Net Financial Position and in the Consolidated 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 Consolidated Statement of Operations and Organizational Net Financial Position are the amounts reported in the Consolidated Future-Oriented Statement of Operations included in the 2020-2021 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 2020-2021 Departmental Plan.

b) Consolidation

These consolidated financial statements include the accounts of the sub-entity for which the Commissioner is accountable. The accounts of this sub-entity, CORCAN Revolving Fund, have been consolidated with those of CSC and all intra-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) Amounts due from or to the Consolidated Revenue Fund (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 CSC is entitled to draw from the CRF without further authorities to discharge its liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

e) Revenues

- Revenues are recognized in the period the event giving rise to the revenues occurred.
- Deferred revenue consists of amounts received in advance of the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned.
- CSC also earns revenues through charging other government departments for internal support services that are then respendable as part of agreements with those departments.
- Revenues that are non-respendable are not available to discharge CSC's liabilities. While the Commissioner is expected to maintain accounting control, she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of CSC's gross revenues.

f) Expenses

Expenses are recorded on an accrual basis:

- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, legal services, and workers' compensation are recorded as operating expenses at their carrying value.
- Transfer payments are recorded as an expense in the year the transfer is authorized and all eligibility criteria have been met by the recipient.

g) Employee future benefits

- Pension benefits – Eligible employees participate in the Public Service Pension Plan, a multi-employer pension 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 – 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)***h) Accounts and loans receivable from external parties***

Accounts and loans receivable are initially recorded at cost. When necessary, an allowance for valuation is recorded to reduce the carrying value of accounts and loans receivable to amounts that approximate their net recoverable value.

i) Inventories

- Inventories 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.
- Inventories not for resale consist of materials and supplies held for future program delivery and are valued at cost. Inventories that no longer have any service potential, are valued at the lower of cost or net realizable value.

j) Tangible capital assets

The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and, except for land, are amortized to expense over the estimated useful lives of the assets, as described in Note 11. All tangible capital assets and leasehold improvements having an initial cost of \$10,000 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 collections and Crown land to which no acquisition cost is attributable; and intangible assets.

k) Contingent liabilities and Contingent assets

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 consolidated financial statements.

Contingent assets are possible assets which may become actual assets when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, the contingent asset is disclosed in the notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)***l) Environmental liabilities***

An environmental liability for the remediation of contaminated sites is recognized when all of the following criteria are satisfied: an environmental standard exists, contamination exceeds the environmental standard, CSC is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. The liability reflects CSC's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the future cash flows required to settle or otherwise extinguish a liability are estimable, predictable and expected to occur over extended future periods, a present value technique is used. The discount rate used reflects the Government's cost of borrowing, associated with the estimated number of years to complete remediation.

The recorded liabilities are adjusted each year, as required, for inflation, new obligations, changes in management estimates and actual costs incurred.

If the likelihood of the Government's responsibility is not determinable, a contingent liability is disclosed in the notes to the financial statements.

m) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated 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 areas where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits, the fair value of non-monetary transactions related to leased tangible capital assets 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 consolidated financial statements in the year they become known.

Environmental liabilities as discussed in Note 7 are subject to measurement uncertainty due to the evolving technologies used in the estimation of the costs for remediation of contaminated sites, the use of future estimated costs, and the fact that not all sites have had a complete assessment of the extent and nature of remediation. Changes to underlying assumptions, the timing of the expenditures, the technology employed, or the revisions to environmental standards or changes in regulatory requirements could result in significant changes to the environmental liabilities recorded.

n) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i. Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- ii. Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

3. Parliamentary Authorities

CSC receives most of its funding through annual Parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Organizational Net Financial Position and the Consolidated 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*

	2021	2020
<i>(in thousands of dollars)</i>		
Net cost of operations before government funding and transfers	3,096,475	3,088,487
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets (note 11)	(122,248)	(125,833)
Net loss on disposal of tangible capital assets and other adjustments	(1,364)	(41,464)
Services provided without charge by other government departments (note 14a)	(177,801)	(165,464)
(Increase) in vacation pay and compensatory leave	(35,311)	(12,399)
Decrease in employee future benefits	6,491	4,032
(Increase) decrease in environmental liabilities	(8)	562
Refund of prior years' expenditures	4,810	14,674
Other	(3,222)	(293,931)
	(328,653)	(619,823)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets (note 11)	124,488	167,468
Transition payments for implementing salary payments in arrears	2	1
Increase in inventories	31,346	6,903
Other	7,559	9,785
	163,395	184,157
Current year authorities used	2,931,217	2,652,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

3. Parliamentary Authorities (continued)

b) Authorities provided and used

	2021	2020
<i>(in thousands of dollars)</i>		
Vote 1 – Operating expenditures	2,750,492	2,314,024
Vote 5 – Capital expenditures	200,234	187,722
Vote 10 – Support for the CSC	-	16,235
Statutory items:		
CORCAN Revolving Fund	8,879	3,880
Other Statutory Items	249,202	219,530
	3,208,807	2,741,391
Less:		
Authorities available for future years (Excluding CORCAN)	205	1,007
CORCAN Revolving Fund available (overexpended) authority	11,966	(6,121) ¹
Lapsed authorities: Vote 1 – Operating expenditures	187,172	54,370
Lapsed authorities: Vote 5 – Capital expenditures	78,247	23,079
Lapsed authorities: Vote 10 – Support for the CSC	-	16,235
Current year authorities used	2,931,217	2,652,821

¹ During the year, CORCAN's revolving fund authority was exceeded due to a series of factors related to the COVID-19 pandemic.

4. Accounts Payable and Accrued Liabilities

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

	2021	2020
<i>(in thousands of dollars)</i>		
Accounts payable - Other government departments and agencies	73,379	49,842
Accounts payable - External parties	77,900	83,725
Total accounts payable	151,279	133,567
Accrued liabilities	659,019	602,120
Total accounts payable and accrued liabilities	810,298	735,687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

5. Employee Future Benefits

a) Pension Benefits

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

The 2020-2021 expense amounts to \$173,851 thousand (\$155,119 thousand in 2019-2020). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2019-2020) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2019-2020) the employee contributions.

CSC'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.

b) Severance benefits

Severance benefits provided to CSC'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, 2021, 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:

	2021	2020
<i>(in thousands of dollars)</i>		
Accrued benefit obligation – Beginning of year	58,919	62,951
Expenses for the year	(1,369)	138
Benefits paid during the year	(5,122)	(4,170)
Accrued benefit obligation – End of year	52,428	58,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

6. Inmate Trust Fund

Pursuant to section 111 of the *Corrections and Conditional Release Regulations*, this account is credited with all moneys brought into the institution by an inmate on admission or readmission, and all moneys that are received on the inmate's behalf while in custody, including, monetary gifts from a third party, payments for program participation, pay earned while on work release or conditional release in the community, moneys received from a third party for work performed in an institution or a CSC approved inmate operated business enterprise, sale of hobby craft or custom work, a payment, allowance or income paid by either a private or government source. Deductions may be made from this account for issues such as debts to the Crown, the Inmate Welfare Fund, canteen expenditures, telephone calls, payments to assist in the reformation and rehabilitation of the inmate, and any other payments for which the inmate is liable.

	2021	2020
<i>(in thousands of dollars)</i>		
Beginning of year	17,500	17,732
Receipts	41,904	38,433
Disbursements	(38,329)	(38,665)
End of year	21,075	17,500

7. Environmental Liabilities

Remediation of contaminated sites

The Government's "Federal Approach to Contaminated Sites" sets out a framework for management of contaminated sites using a risk-based approach. Under this approach the Government has inventoried the contaminated sites identified on federal lands, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aids in identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to human health and the environment.

CSC has identified a total of 43 sites (45 sites in 2020) where contamination may exist and assessment, remediation and monitoring may be required. Of these, CSC has identified 20 sites (24 sites in 2020) where action is required and for which a gross liability of \$1,748 thousand (\$1,915 thousand in 2020) has been recorded. This liability estimate has been determined based on site assessments performed by environmental experts.

In addition, a statistical model based upon a projection of the number of sites that will proceed to remediation and upon which current and historical costs are applied is used to estimate the liability for a group of unassessed sites. As a result, there are 13 unassessed sites (13 sites in 2020) of which 7 sites are projected to have a liability (7 sites in 2020) estimate of \$909 thousand (\$734 thousand in 2020) which has been recorded using this model.

These two estimates combined, totalling \$2,657 thousand (\$2,649 thousand in 2020), represents management's best estimate of the costs required to remediate the sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

7. Environmental Liabilities (continued)

For the remaining 16 sites (14 sites in 2020), no liability for remediation has been recognized. Some of these sites are at various stages of testing and evaluation and if remediation is required, liabilities will be reported as soon as a reasonable estimate can be determined. For these sites, CSC does not expect to give up any future economic benefit (there is likely no significant environmental impact or human health threats). These sites will be re-examined and a liability for remediation will be recognized if future economic benefits will be given up.

The following table presents the total estimated amounts of these liabilities by nature and source and the total undiscounted future expenditures as at March 31, 2021 and March 31, 2020. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2.0% (2.0% in 2020). Inflation is included in the undiscounted amount.

The following table presents the total estimated amounts of these liabilities by nature and source as at March 31, 2021, and March 31, 2020.

NATURE & SOURCE OF LIABILITY						
Nature & Source	2021			2020		
	Total Number of Sites ⁽⁵⁾	Number of Sites with a liability	Estimated Liability and Total Undiscounted Expenditures ⁽⁴⁾ (in thousands of dollars)	Total Number of Sites ⁽⁵⁾	Number of Sites with a liability	Estimated Liability and undiscounted expenditures ⁽⁴⁾ (in thousands of dollars)
Fuel Related Practices ⁽¹⁾	16	7	615	19	8	632
Landfills/Waste Sites ⁽²⁾	18	12	1,015	17	15	1,037
Other ⁽³⁾	9	8	1,027	9	8	980
Totals	43	27	2,657	45	31	2,649

(1) Contamination primarily associated with fuel storage and handling, e.g. accidental spills related to fuel storage tanks or former fuel handling practices, e.g. petroleum hydrocarbons, polyaromatic hydrocarbons and BTEX.

(2) Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, other organic contaminants, etc.

(3) Contamination from other sources, e.g. use of pesticides, herbicides, fertilizers at agricultural sites; use of PCBs, firefighting training areas, firing ranges and training facilities, etc.

(4) It was determined that the effects of discounting of these liabilities for each fiscal year is immaterial for CSC. Therefore, the present value technique has not been used to calculate the discounted value for each site.

(5) The total number of sites includes closed sites as reported below for the current fiscal year.

Also during the year 4 sites (4 sites in 2020) were closed as they were either remediated or assessed to confirm that they no longer meet all the criteria required to record a liability for contaminated sites and 2 sites (1 site in 2020) were re-opened as additional remediation strategies are taking place.

CSC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

8. 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 in which the service is performed. Details of the transactions related to this account are as follows:

	2021	2020
<i>(in thousands of dollars)</i>		
Opening balance	251	637
Amounts received	16,841	19,459
Revenue recognized	(16,911)	(19,845)
Ending balance	181	251

9. Accounts Receivable, Advances and Loans

The following table presents details of CSC's accounts receivable, advances, and loan balances:

	2021	2020
<i>(in thousands of dollars)</i>		
Receivables - Other government departments and agencies	30,762	37,699
Receivables - External parties	73,873	69,592
Employee advances	3,608	4,444
Parolee loans and advances to individuals other than employees	147	174
	108,390	111,909
Allowance for doubtful accounts on receivables from external parties and parolee loans	(545)	(802)
Gross accounts receivable and advances	107,845	111,107
Accounts receivable held on behalf of Government	(823)	(929)
Net accounts receivable and advances	107,022	110,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

For the Year Ended March 31

10. Inventories

The following table presents details of CSC's inventories:

	2021	2020
<i>(in thousands of dollars)</i>		
Inventories held for resale		
Raw materials	8,832	9,088
Work in progress	347	682
Finished goods	7,286	10,451
	16,465	20,221
Provision for obsolete inventory	(2,431)	(1,129)
Total inventories held for resale	14,034	19,092
Inventories not for resale		
Pharmaceuticals and health care supplies	43,089	12,202
Other Supplies	10,093	8,159
Clothing	11,119	9,629
Building materials	4,450	3,888
Utilities	3,700	2,348
Other Inventory	4,529	4,350
Total inventories not for resale	76,980	40,576
Total Inventories	91,014	59,668

The cost of consumed inventories not for resale recognized as an expense in the Consolidated Statement of Operations and Organizational Net Financial Position is \$150,411 thousand in 2021 (\$153,722 thousand in 2020).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

11. 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
Buildings	25 to 40 years
Works and Infrastructure	20 to 25 years
Machinery and Equipment	10 years
Informatics Hardware and Software	3 to 10 years
Vehicles	5 to 10 years
Leasehold Improvements	Straight Line over the lesser of useful life of improvement or lease term
Assets under Capital Leases	Straight Line over the lesser of useful life of improvement or lease term

Assets under construction are recorded in the applicable asset class in the year they are put into service and are not amortized until they are put into service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

For the Year Ended March 31

11. Tangible Capital Assets (continued)

Capital Asset Class	Cost					Accumulated Amortization					Net Book Value	
	Opening Balance	Acquisitions	Adjustments (1)	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments (1)	Disposals and Write-Offs	Closing Balance	2021	2020
	(in thousands of dollars)											
Land	14,545	-	-	-	14,545	-	-	-	-	-	14,545	14,545
Buildings	2,793,382	-	4,108	-	2,797,490	1,379,062	81,876	(3)	-	1,460,935	1,336,555	1,414,320
Works and infrastructure	767,570	-	36,855	-	804,425	488,969	21,687	(18)	-	510,638	293,987	278,601
Machinery and equipment	131,999	13,490	(42)	(1,704)	143,743	92,668	3,570	(79)	(1,539)	94,620	49,123	39,331
Informatics Hardware and Software	91,971	27	13	(96)	91,915	79,168	3,368	-	(96)	82,440	9,475	12,803
Vehicles	89,141	10,522	210	(2,147)	97,726	49,794	8,424	167	(1,896)	56,489	41,237	39,347
Leasehold Improvements	61,782	-	579	-	62,361	38,931	3,323	-	-	42,254	20,107	22,851
Assets under construction	503,628	100,449	(44,266)	-	559,811	-	-	-	-	-	559,811	503,628
Total	4,454,018	124,488	(2,543)	(3,947)	4,572,016	2,128,592	122,248	67	(3,531)	2,247,376	2,324,640	2,325,426

(1) Adjustments include assets under construction of \$41,654 thousand (\$75,570 thousand in 2020) that were transferred to the other capital asset classes upon completion of the project. Other net adjustments of \$2,610 thousand are as a result of the capital asset validation exercise undertaken during the fiscal year including the write-off of various projects that were deemed to not meet CSC's capitalization criteria.

In April 2012, the Government of Canada announced it would close three institutions (Kingston Penitentiary, Ontario Regional Treatment Centre (ORTC) and Leclerc Institution). The closures were completed in September 2013 as planned. In December 2019, CSC received a market appraisal for the Kingston Penitentiary and ORTC. In accordance with PSAS 3150, this appraisal triggered an analysis of CSC's valuation of the properties and whether any adjustments to the net book values were required. In 2019, it was determined that Kingston Penitentiary and ORTC assets should be written-down to their combined net realizable value of \$4,688 thousand, which resulted in a write-down of \$40,512 thousand. This assessment of Kingston Penitentiary and ORTC's residual value was based on the market appraisal provided to CSC. CSC will continue to assess Kingston Penitentiary and ORTC yearly to determine if any future write-downs or other adjustments are required. There is no change from 2019-2020 to the Ontario RHQ net book value of \$789 thousand. Should a further change in the Kingston Penitentiary's, ORTC's, or Ontario RHQ's net book values become known, any applicable amounts will be recorded at that time. Leclerc Institution remains a tangible capital asset of CSC and has been leased under a long-term operating agreement with the Province of Quebec.

CSC also has Buildings and Works and Infrastructure located on reserves as defined in the *Indian Act* which are not recognized above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

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 in order to carry out its transfer payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2022	2023	2024	2025	2026 and thereafter	Total
Acquisition of goods and services	195,688	4,878	2,302	1,437	385	204,690

13. Contingent Liabilities and Contingent Assets**a) Contingent Liabilities**Claims & Litigation

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. Other claims and litigations against CSC that have not been recorded in the allowance include class action suits for which the likelihood of liability is not determinable and/or a reasonable amount cannot be estimated.

b) Contingent Assets

CSC may bring a claim as part of its normal course of operations which could result in a contingent asset, however none are known to exist as at March 31, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

14. Related Party Transactions

CSC is related as a result of common ownership to all government departments, agencies, and Crown corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

CSC enters into transactions with these entities in the normal course of business and on normal trade terms.

During the year, CSC did not enter into material transactions at a value different from that which would have been arrived at if the parties were unrelated.

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 at their carrying value in CSC's Consolidated Statement of Operations and Organizational Net Financial Position as follows:

<i>(in thousands of dollars)</i>	2021	2020
Employer's contribution to the health and dental insurance plans	154,964	142,400
Accommodation	17,866	17,904
Workers' compensation	3,290	3,611
Legal services	1,681	1,549
Total	177,801	165,464

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 Services and Procurement Canada, audit services provided by the Office of the Auditor General, and information technology services provided by Shared Services Canada, are not included in CSC's Consolidated Statement of Operations and Organizational Net Financial Position.

b) Other transactions with other government departments

<i>(in thousands of dollars)</i>	2021	2020
Accounts receivable	30,762	37,699
Accounts payable	73,379	49,842
Expenses	448,798	389,484
Revenues	99,980	110,866

Expenses and revenues disclosed in *b)* exclude common services provided without charge, which are already disclosed in *a)*.

c) Transfers of assets and liabilities (to) from other government departments

During the year, CSC transferred in amounts related to salary overpayments receivable from other government departments for a net amount of \$45 thousand (\$21 thousand in 2020).

There were no capital asset transfers to an other government department during 2021 (\$1 thousand in 2020).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

15. Segmented Information

Presentation by segment is based on CSC's departmental results framework. 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 programs, by major objects of expense and by major types of revenue. The segment results for the period are as follows:

	2021					2020	
(in thousands of dollars)							
	Care and Custody	Correctional Interventions	Community Supervision	Internal Services	Intra-entity Transactions (with CORCAN)	Total	Total
Transfer payments							
Organizations and municipalities	1,905	-	1,822	-	-	3,727	2,507
Total transfer payments	1,905	-	1,822	-	-	3,727	2,507
Operating expenses							
Salaries and employee benefits	1,465,361	503,118	28,466	297,028	-	2,293,973	1,988,766
Professional and special services	130,333	71,203	131,619	51,411	(42,555)	342,011	340,210
Utilities, materials and supplies	137,060	27,725	3,016	3,856	(5,515)	166,142	178,629
Amortization of tangible capital assets	115,912	1,837	1,888	2,611	-	122,248	125,833
Payment in lieu of taxes	33,173	-	-	-	-	33,173	34,082
Damages and Claims Against the Crown	17,301	10,086	396	4,430	-	32,213	1,588
Machinery and equipment	14,713	1,457	319	17,886	(2,167)	32,208	20,338
Rentals	2,177	3,292	3,974	18,446	(172)	27,717	26,342
Inmate pay	-	18,445	-	-	-	18,445	13,128
Accommodation	-	-	9,084	8,782	-	17,866	17,904
Repairs and maintenance	24,449	3,795	621	360	(12,841)	16,384	19,950
Travel	4,543	1,158	109	1,716	-	7,526	20,252
Telecommunications	194	3	3	3,282	(1)	3,481	1,492
Relocation	-	(19)	-	3,050	(37)	2,994	5,143
Loss (gain) on disposal of tangible capital assets	(105)	-	35	90	-	20	(336)
Environmental liabilities	7	-	-	-	-	7	(562)
Other subsidies and expenses	10,471	7,401	226	1,713	(143)	19,668	345,415
Intra-entity Transactions (with CORCAN)	(19,255)	(41,838)	(209)	(2,129)	63,431	-	-
Total operating expenses	1,936,334	607,663	179,547	412,532	-	3,136,076	3,138,174
Sub-Total Expenses	1,938,239	607,663	181,369	412,532	-	3,139,803	3,140,681
Expenses incurred on behalf of Government	(2)	(3)	-	(32)	-	(37)	(167)
Total Expenses	1,938,237	607,660	181,369	412,500	-	3,139,766	3,140,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

For the Year Ended March 31

15. Segmented Information (continued)

	2021					2020	
<i>(in thousands of dollars)</i>							
	Care and Custody	Correctional Interventions	Community Supervision	Internal Services	Intra-entity Transactions (with CORCAN)	Total	Total
Revenues							
Sales of goods and services	-	62,089	-	-	(21,783)	40,306	52,027
Miscellaneous revenues	2,934	41,808	-	2,989	(41,648)	6,083	4,297
Revenues earned on behalf of Government	(2,933)	(154)	-	(11)	-	(3,098)	(4,297)
Intra-entity Transactions (with CORCAN)	-	(63,431)	-	-	63,431	-	-
Total Revenues	1	40,312	-	2,978	-	43,291	52,027
Net cost of operations before government funding and transfers	1,938,236	567,348	181,369	409,522	-	3,096,475	3,088,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*unaudited*)

For the Year Ended March 31

16. Comparative information

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

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

SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2020-2021 AND THE ACTION PLAN OF CORRECTIONAL SERVICE OF CANADA

1. INTRODUCTION

This document provides summary information on the measures taken by Correctional Service of Canada (CSC) 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 CSC's authority, mandate, and program can be found in the [Departmental Results Report](#) and the [Departmental Plan](#).

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. CSC's focus is to ensure that risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Internal Control Management

CSC has a well-established governance and accountability structure to support organizational assessment efforts and oversight of its system of internal control. CSC's Internal Controls over Financial Reporting (ICFR) Framework, approved by the Commissioner in May 2018, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities which span from senior managers across to CSC employees in their areas of responsibility for control management;
- Internal control structure and management approach, which depicts the overall approach for internal control identification, documentation and evaluation;
- Monitoring and regular updates on internal control management, as well as the provision of related assessment results and action plans to the Commissioner, Senior Management and the Departmental Audit Committee (DAC).

The Departmental Audit Committee provides advice to the Commissioner on the adequacy and functioning of the department's risk management, control and governance frameworks and processes.

2.2 Service Arrangements relevant to financial statements

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

- Public Services and Procurement Canada (PSPC) centrally administers the payments of salaries and the procurement of goods and services, as per CSC's Delegation of Authority and provides accommodations 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 provides information technology (IT) infrastructure services to CSC in the areas of data centre and network services; and
- The Public Service Pay Center provides pay and compensation services to CSC.

3. CSC'S ASSESSMENT RESULTS DURING FISCAL YEAR 2020-2021

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

New or significantly amended key controls: CSC re-assesses key controls affected by new or significantly amended processes identified in its ongoing risk-based monitoring plan. Some minor amendments were made to existing controls as a consequence of COVID-19 and a shift to telework for CSC personnel. For example, transaction approvals that had previously been given in writing were transitioned to electronic forms. CSC will monitor the impacts of the changing work environment on key controls and adapt ongoing monitoring activities accordingly. There were no significantly amended key controls in existing processes that required a reassessment.

Ongoing risk-based monitoring plan: As part of its ongoing risk-based monitoring plan, CSC completed reassessments of the following processes: Entity Level Controls, Financial Close and Reporting, and Pay Administration. Substantial work was completed as well on a reassessment of the Capital Assets (excluding Real Property) process; work will be completed in 2021-2022. A special assessment was conducted of the Post-Payment Verification (PPV) process due to the high volume of emergency procurements resulting from COVID-19 and the transition to electronic approvals. A risk assessment of financial systems was completed, the results of which will be used to guide future internal control monitoring of Information Technology General Controls (ITGC).

Key controls tested as part of CSC's ongoing risk-based monitoring plan in 2020-2021 were found to be operating effectively with some opportunities for improvement in areas such as:

- maintenance of the Chart of Accounts and updates to accounting manuals;
- direction on exercising approval authorities for all pay actions;
- monitoring of timekeeper entries;
- ensuring segregation of duties, and;
- updating the Account Verification Framework.

4. CSC'S ACTION PLAN

4.1 Progress during fiscal year 2020-2021

During 2020-2021, CSC conducted ongoing risk-based monitoring according to the previous fiscal year's rotational plan for the current year as shown in the following table. Due to operational conditions, some scheduling modifications were made to the plan:

Progress during Fiscal Year 2020-2021

Element in previous year's action plan	Status as at March 31, 2021
Entity-Level Controls	Completed as planned; remedial actions started.
Pay Administration	Completed as planned; remedial actions started.
Financial Close and Reporting	Completed as planned; remedial actions started.
Purchases, Payables, and Payments	Post-Payment Verification (PPV) special assessment completed; remedial actions started.
Capital Assets (excluding Real Property)	Ongoing monitoring assessment started; completion in 2021-2022.
Inventory	Ongoing monitoring assessment started; completion in 2021-2022.

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

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

Key Control Areas- Process	2021-2022	2022-2023	2023-2024
Entity Level Controls (ELC)			
Entity-Level Controls			✓
Financial Management Processes¹			
Budgeting and Forecasting		✓	✓
Costing	✓	✓	✓
Investment Planning		✓	✓
CFO Attestation		✓	✓
Internal Control over Financial Reporting (ICFR)			
Financial Close and Reporting		✓	
Revenues, Receivables, and Receipts		✓	
Purchases, Payables, and Payments	✓	✓	✓
Pay Administration	✓	✓	✓
Inmate Trust Fund	✓*		
Inventory	✓	✓	✓
Capital Assets	✓	✓	✓
Information Technology General Controls (ITGC)			
IT General Controls	✓	✓	✓

* Identifies partial ongoing monitoring work. The work will consist of process description update, risk assessment update and monitoring of the implementation of management action plans. No extensive sample testing will be done.

1 CSC retained an external service provider in 2020-2021 to complete process documentation, design and operating effectiveness testing. CSC will reach ongoing monitoring by fiscal year 2022-2023, at which point, the nature, extent and frequency of testing will be evaluated to determine overall process risk rating and frequency of rotational testing.