ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2011, and all information contained in these statements rests with the management of Aboriginal Affairs and Northern Development Canada (AANDC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

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 AANDC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in AANDC'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 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 AANDC; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

An assessment for the year ended March 31, 2011 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of AANDC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of AANDC'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 Deputy Minister.

The financial statements of AANDC have not been audited.

Michael Wernick
Deputy Minister

Susan MacGowan, CMA
Chief Financial Officer

Gatineau, Canada
August 26, 2011

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Financial Position *(Unaudited)*

As at March 31
(in thousands of dollars)

Assets	**2011**	**2010** Restated (Note 20)
Financial assets		
Due from Consolidated Revenue Fund	2,076,208	2,184,562
Accounts receivable and advances (Note 4)	92,889	127,808
Interest receivable (Note 5)	1,458	3,483
Loans receivable (Note 6)	773,586	746,730
Total financial assets	***2,944,141***	***3,062,583***
Non-financial assets		
Prepaid expenses	-	2,154
Land held for future claims settlements (Note 7)	26,167	26,157
Tangible capital assets (Note 8)	54,320	49,617
Total non-financial assets	***80,487***	***77,928***
TOTAL	**3,024,628**	**3,140,511**
Liabilities and Equity		
Liabilities		
Accounts payable and accrued liabilities (Note 9)	897,971	1,131,568
Vacation pay and compensatory leave	18,103	18,166
Other liabilities (Note 10)	68,949	59,584
Trust accounts (Note 11)	1,148,048	1,080,862
Settled claims (Note 12)	623,684	538,411
Provision for claims and litigation (Note 13)	11,663,760	12,050,572
Environmental liabilities (Note 13)	2,015,473	1,901,998
Provision for loan guarantees (Note 13)	1,655	1,660
Employee future benefits (Note 14)	80,567	74,320
Total liabilities	**16,518,210**	**16,857,141**
Equity of Canada (Note 15)	**(13,493,582)**	**(13,716,630)**
TOTAL	**3,024,628**	**3,140,511**

Contingent liabilities (Note 13)

Contractual obligations (Note 16)

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

Michael Wernick
Michael Wernick
Deputy Minister

S. MacGowan
Susan MacGowan, CMA
Chief Financial Officer

Gatineau, Canada
August 26, 2011

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Operations *(Unaudited)*

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

	2011	**2010**
Expenses		
People	4,585,370	4,297,945
Economy	1,458,542	1,446,855
Government	752,065	2,087,813
North	588,258	563,617
Internal Services	448,363	541,784
Land	138,230	286,397
Office of the Federal Interlocutor	38,737	40,617
Total Expenses	**8,009,565**	**9,265,028**
Revenues		
People	-	-
Economy	2,247	2,036
Government	4,687	6,922
North	239,649	196,301
Internal Services	835	330
Land	37	54
Office of the Federal Interlocutor	-	-
Total Revenues	**247,455**	**205,643**
Net Cost of Operations	**7,762,110**	**9,059,385**

Segmented information (Note 18)

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

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Equity of Canada *(Unaudited)*

As at March 31

(in thousands of dollars)

	2011	**2010** Restated (Note 20)
Equity of Canada, beginning of year	**(13,716,630)**	**(11,791,231)**
Net cost of operations	(7,762,110)	(9,059,385)
Net cash provided by Government	8,004,171	6,908,720
Change in due from the Consolidated Revenue Fund	(108,354)	125,763
Services provided without charge from other government departments (Note 17)	89,341	99,503
Equity of Canada, end of year	**(13,493,582)**	**(13,716,630)**

Restricted Equity of Canada (Note 15)

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

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Cash Flow *(Unaudited)*

For the year ended March 31
(in thousands of dollars)

	2011	**2010**
Operating activities		
Net cost of operations	7,762,110	9,059,385
Non-cash items:		
Services provided without charge from other departments (Note 17)	(89,341)	(99,503)
Amortization of tangible capital assets	(6,512)	(10,440)
Gain (loss) on disposal of tangible capital assets	329	10
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(34,919)	65,670
Increase (decrease) in interest receivable	(2,025)	(3,456)
Increase (decrease) in loans receivable	26,856	(42,757)
Increase (decrease) in prepaid expenses	(2,154)	(18)
Increase (decrease) in land held for future claims settlements	10	331
Decrease (increase) in liabilities	338,931	(2,075,679)
Cash used by operating activities	***7,993,285***	***6,893,543***
Capital investing activities		
Acquisitions of tangible capital assets	11,260	15,228
Proceeds from disposal of tangible capital assets	(374)	(51)
Cash used in capital investing activities	***10,886***	***15,177***
Net cash provided by Government of Canada	**8,004,171**	**6,908,720**

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

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Notes to the Financial Statements *(Unaudited*)

1. Authority and objectives

The Department, under its legal name the Department of Indian Affairs and Northern Development, was established by the *Government Organization Act, 1966* and continued by the *Department of Indian Affairs and Northern Development Act* (R.S., 1985, c. I-6). It is named in Schedule I of the *Financial Administration Act*. However, the Department is more commonly known by its applied title under the Federal Identity Program (FIP) as Aboriginal Affairs and Northern Development Canada (AANDC).

AANDC is one of the federal government departments responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Métis, and for fulfilling the federal government's constitutionally mandated role in the North. The mandate of the Department is derived largely from the *Department of Indian Affairs and Northern Development Act*, the *Indian Act* and its amendments, as well as numerous other statutes, negotiated agreements and relevant legal decisions.

To deliver on its mandate, AANDC has structured its operations along seven strategic outcomes as follows:

a) People - Activities within this strategic outcome are dedicated to achieving a Canada where there is strengthened individual and family well-being for First Nations and Inuit. Program activities are designed to:

- Provide tools to achieve better educational outcomes for First Nations and Inuit;
- Support safety and well-being through the delivery of social services; and
- Enhance First Nations' capacity to manage their individual affairs.

b) Government - Under this strategic outcome, activities enable and support good governance and effective institutions for First Nations and Inuit. Program activities are designed to:

- Support stable, effective First Nations and Inuit governments;
- Provide legal certainty over ownership and use of lands and resources; and
- Provide approved payments to Aboriginal groups for settlement of claims.

c) Economy - This strategic outcome concentrates on establishing a supportive investment/business climate to enable First Nations, Inuit and Métis people, their communities and their businesses to seize economic opportunities. These activities promote:

- Sustainable business development;
- Investment leading to jobs in communities; and
- Management of infrastructure facilities.

d) North - Through this strategic outcome, AANDC fulfills the federal government's constitutionally mandated responsibilities in Canada's three northern territories. Program activities are designed to:

- Strengthen northern governments for all Northerners;
- Improve Northerners' health and well-being; and
- Support the sustainable development of the North's natural resources.

e) Land - This strategic outcome focuses on the sustainable management of First Nation and Inuit lands, resources and environment. Program activities support:

- First Nations' governance over land, resources and environment;
- Strengthening the social and economic well-being of communities; and
- Economic development and encourage investment.

f) Office of the Federal Interlocutor - Under this strategic outcome, activities focus on improving the socio-economic well-being of Métis, Non-Status Indians and urban Aboriginal people. These activities support:

- Capacity development within Métis and Non-Status Indian organizations;
- Urban Aboriginal people in taking advantage of economic opportunities; and
- Respect for Aboriginal rights of Métis and developing membership systems.

g) Internal Services - Under this strategic outcome, activities are designed to support the effective delivery of AANDC's programs and services and other corporate obligations of the organization. These activities include:

- Management and oversight services;
- Financial management services; and
- Legal services.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with the Treasury Board accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

a) Parliamentary authorities – AANDC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to AANDC does 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 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.

b) Net cash provided by Government – AANDC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by AANDC is deposited to the CRF and all cash disbursements 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.

c) Amounts due from/to the CRF – These amounts 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 AANDC is entitled to draw from the CRF without further appropriations to discharge its liabilities.

d) Revenues – Revenues from regulatory fees are recognized in the accounts based on the services provided in the year. Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

e) Expenses – Expenses are recorded on the accrual basis:

• Grants are recognized in the year in which conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized 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;

• Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made;

• Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment; and

• Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.

f) Employee future benefits

• Pension benefits - Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. AANDC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the plan.

• Severance benefits - Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts receivable – Accounts receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.

The amount of the allowance is determined based on an assessment of each account. The collectibility of each account is reviewed by regional accounting offices on a semi-annual basis using a standard set of criteria to assess default risk.

h) Loans receivable – Loans receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.

The amount of the allowance is determined based on an assessment of each loan. The collectibility of each loan is reviewed by program managers on an annual basis using a standard set of criteria to assess default risk.

Interest on loans receivable is calculated in accordance with the terms and conditions of each individual program. Interest is not accrued on loans approved for write-off or forgiveness.

i) Contingent liabilities – A contingent liability is a potential liability which may become an actual liability when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

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 the Department becomes aware of the contamination and is obligated, or is likely to be obligated, to incur such costs. If the likelihood of the Department’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) 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. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, or assets located on Indian Reserves.

Capital assets which are held for future contribution to First Nations are reported as land held for future claims settlements.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the assets as follows:

Asset Class	Amortization Period
Buildings	
Residential mobile	20 years
Administrative, institutional, recreational and residential	40 years
Works and infrastructure	30 years
Machinery and equipment	
Communication equipment	5 years
Lab, scientific and testing equipment	10 years
Construction, excavating and clearing equipment	15 years
Generating equipment	15 years
Informatics hardware and software	3 years
Ships and boats	10 years
Motor vehicles	
Passenger vehicles and light trucks	5 years
Heavy trucks	10 years
Other vehicles	5 years
Leasehold improvements	Lesser of useful life or term of lease
Assets under construction	Once in service, in accordance with asset type

l) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits, and the useful life of tangible capital assets. Actual results could differ significantly 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.

3. Parliamentary authorities

AANDC is financed by the Government of Canada through Parliamentary authorities. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary authorities in prior, current or future years.

Accordingly, AANDC 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

	2011	2010
	(in thousands of dollars)	
Net Cost of Operations	**7,762,110**	**9,059,385**
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(6,512)	(10,440)
Gain (loss) on disposal of tangible capital assets	329	10
Services provided without charge	(89,341)	(99,503)
Decrease (increase) in vacation pay and compensatory leave	63	(912)
Decrease (increase) in liability for settled claims	(85,273)	69,520
Decrease (increase) in provision for claims and litigation	386,812	(1,714,636)
Decrease (increase) in environmental liabilities	(113,475)	(330,650)
Decrease (increase) in employee future benefits	(6,247)	4,229
Refunds/adjustments to prior years' expenditures	70,967	129,130
Revenue not available for spending	247,455	205,643
Other	1,003	53,407
	8,167,891	***7,365,183***
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	11,260	15,228
Increase (decrease) in prepaid expenses	(2,154)	(18)
Increase (decrease) in land held for future claims settlements	10	331
Current year authorities used	**8,177,007**	**7,380,724**

b) Authorities provided and used

	2011	2010
	(in thousands of dollars)	
Authorities Provided:		
Vote 1 – Operating expenditures	1,403,926	1,248,161
Vote 5 – Capital expenditures	10,666	1,159
Vote 10 – Grants and Contributions	6,600,251	6,133,098
Vote 15 – Payment to Canada Post Corporation	59,000	66,200
Vote 20 – Office of the Federal Interlocutor- Operating	9,861	9,386
Vote 25 – Office of the Federal Interlocutor- Contributions	29,939	32,387
Statutory amounts	205,622	286,555
	8,319,265	***7,776,946***
Less:		
Authorities available for future years	(32,110)	(31,921)
Authorities lapsed:		
Vote 1 – Operating expenditures	(52,898)	(22,782)
Vote 5 – Capital expenditures	(10,643)	(825)
Vote 10 – Grants and Contributions	(45,276)	(330,834)
Vote 15 – Payment to Canada Post Corporation	-	(7,886)
Vote 20 – Office of the Federal Interlocutor- Operating	(647)	(958)
Vote 25 – Office of the Federal Interlocutor- Contributions	(680)	(1,016)
Statutory amounts	(4)	-
	(142,258)	***(396,222)***
Current year authorities used	**8,177,007**	**7,380,724**

4. Accounts receivable and advances

The following table presents details of accounts receivable and advances:

	2011	2010
	(in thousands of dollars)	
Receivables from external parties	57,110	117,202
Receivables from other Federal Government departments and agencies	49,886	24,675
Employee advances	236	285
	107,232	***142,162***
Less:		
Allowance for doubtful accounts on external receivables	(14,343)	(14,354)
Total	**92,889**	**127,808**

5. Interest receivable

The following table presents details of accrued interest receivable on loans:

	2011	2010
	(in thousands of dollars)	
Direct loans	1,443	3,472
Defaulted guaranteed loans	525	493
	1,968	***3,965***
Less:		
Allowance for doubtful accounts	(510)	(482)
Total	**1,458**	**3,483**

6. Loans receivable

The following table presents details of loans receivable:

	2011	2010
	(in thousands of dollars)	
Direct loans portfolio:		
Native claimants	453,030	455,339
First Nations in British Columbia	420,800	395,879
Other direct loans	509	514
	874,339	***851,732***
Add: Capitalized interest	7,052	8,325
Less: Allowance for doubtful loans	(117,431)	(118,394)
Net recoverable value	**763,960**	**741,663**
Defaulted guaranteed loans portfolio:		
On-reserve housing guarantees	11,826	10,278
Indian economic development guarantees	3,137	3,165
Other defaulted guaranteed loans	104	124
Aboriginal loan insurance	-	7,192
	15,067	***20,759***
Add: Capitalized interest	14,656	13,031
Less: Allowance for doubtful loans	(20,055)	(28,723)
Less: Debt write-off	(42)	-
Net recoverable value	**9,626**	**5,067**
Loans receivable, net recoverable value	**773,586**	**746,730**

Reserve for losses on loans – AANDC has access to an annual $2 million statutory authority for funding payments to lending institutions to honour loan guarantees. Payments made in excess of the $2 million authority limit are charged to program expenses and funded by budgetary authorities.

AANDC charged $1,354,000 to its reserve in 2011 ($1,872,000 in 2010) for payments covering the default of 3 loans (10 in 2010).

Direct loans portfolio

The objective of direct loans is to support active participation by First Nations and First Nations organizations and to promote a balanced exchange of ideas in negotiating the settlement of comprehensive land claims, specific claims, and treaties.

AANDC's direct loans portfolio has two active programs in support of this objective.

Native claimants

These are loans made to Native claimants to defray the costs related to the research, development and negotiation of comprehensive land claims and specific claims.

The significant terms and conditions of loans to Native claimants are as follows:

(a) loans made before an agreement-in-principle for the settlement of a claim is reached are non-interest bearing;

(b) loans made after the date on which an agreement-in-principle for the settlement of a claim has been reached, bear interest at a rate equal to the rate established by the Minister of Finance in respect of borrowings for equivalent terms by Crown corporations;

(c) loans are due and payable, as to principal and interest, on the date on which the claim is settled, or on a date fixed in the loan agreement;

(d) loans may be restructured, including forgiveness of a portion of the principal or interest in arrears, when the borrower cannot meet the term of the original loan agreement; and

(e) AANDC may seek security for loans when deemed appropriate.

When an agreement-in-principle is reached for the settlement of a claim, any accrued interest receivable is capitalized semi-annually as part of the principal amount owing on the loan. After a final agreement is reached, any accrued interest receivable outstanding is capitalized annually as part of the principal amount owing on the loan.

The interest bearing and non-interest bearing portions of direct loans for Native claimants outstanding at March 31 are as follows:

	2011	**2010**
	(in thousands of dollars)	
Interest bearing	97,553	112,818
Non-interest bearing	355,477	342,521
Total	**453,030**	**455,339**

First Nations in British Columbia

These are loans made to First Nations in British Columbia to support their participation in the British Columbia Treaty Commission and to defray the costs related to the research, development and negotiation of treaties.

The significant terms and conditions of direct loans to First Nations in British Columbia are the same as those for loans to Native claimants, except as follows:

(a) loans made between April 1, 2004 and March 31, 2011, and after the date on which an agreement-in-principle for the settlement of a treaty has been reached, shall be non-interest bearing unless the loans become due and payable during this period.

The interest bearing and non-interest bearing portions of direct loans for First Nations in British Columbia outstanding at March 31 are as follows:

	2011	**2010**
	(in thousands of dollars)	
Interest bearing	23,860	9,173
Non-interest bearing	396,940	386,706
Total	**420,800**	**395,879**

Other direct loans

AANDC also has various legacy programs that are no longer active. These legacy programs will continue to operate under their existing arrangements until the land claims are settled, at which point the loans will become repayable and the respective programs closed.

All loans outstanding at year-end under the various legacy programs both for the current and prior year are interest bearing.

Defaulted guaranteed loans portfolio

The objective of loan guarantees is to encourage lending institutions to make loans for properties located on First Nations lands and to support access to credit markets for First Nations and First Nations organizations. Since properties located on First Nations lands cannot be used as collateral to secure the loans and lending institutions are prevented from foreclosing on these properties in the event of borrower default as prescribed by the *Indian Act*, lending institutions can be exposed to greater business risk in issuing loans for properties located on First Nations lands.

As guarantor, loan guarantees issued under the various programs may become receivables of the Department when, at the request of a lending institution, AANDC is required to honour these loan guarantees. As a result, AANDC makes payment to the lending institution and establishes a receivable from the First Nation or First Nation organization.

The various loan guarantee programs are described below.

On-reserve housing guarantee program

This program authorizes the Department to guarantee loans to individuals and Indian bands to assist in the purchase of housing on reserves because security restrictions in the *Indian Act* prevent the mortgage and seizure of property located on reserves. These loan guarantees enable status Indians residing on reserves, Band councils, or their delegated authorities, to secure housing loans without giving the lending institution rights to the property.

The significant terms and conditions of the On-reserve housing guarantee program are as follows:

Payments of principal and interest for loans issued under this program are amortized over a period of 25 years. The interest rates on the guaranteed loans are consistent with conventional mortgage interest rates offered by the major banks. On a semi-annual basis, any accrued interest receivable outstanding is capitalized as part of the principal amount owing on the loan.

To control the occurrence of defaulted loans in this program, the Department restricts the eligibility of recipients for further loans until such time as a recovery plan has been reached and has been in operation in accordance with its terms and conditions for a period of six months.

Indian economic development guarantee program

This program authorizes the Department to guarantee loans for non-incorporated Indian businesses on a risk-sharing basis with commercial lenders because security restrictions in the *Indian Act* prevent the mortgage and seizure of property located on reserves. Guarantees are provided for various types of borrowers whose activities contribute to the economic development of Indians and enable them to develop long-term credit relationships with mainstream financial institutions.

The significant terms and conditions of the Indian economic development guarantee program are as follows:

Loans issued under this program cannot exceed a term of 15 years and the line of credit must be renewed every year. Interest rates on guaranteed loans are consistent with rates provided by lending institutions to commercial businesses, which are usually based on a spread from the prime lending rate. Accrued interest on loans issued under this program is not capitalized. Any security pledged for a guaranteed loan may not be released by the lending institution without the prior approval of the Minister of AANDC.

Other defaulted guaranteed loans

AANDC also has a legacy program that is no longer active. This legacy program will continue to operate under its existing arrangements until the defaulted guaranteed loans are paid and the program closed.

Aboriginal business loan insurance program

This program, originally established under the Department of Industry, provides loan insurance to financial institutions on behalf of loans issued to Aboriginal individuals, organizations, corporations or partnerships for the purpose of increasing commercial enterprise activity by Aboriginal Canadians.

7. Land held for future claims settlements

Land held for future claims settlements is segregated from other tangible capital assets as these assets are not acquired with the intention of being used on a continuous basis in government operations. Rather, these assets are properties acquired and held by AANDC for the purpose of future settlements of Aboriginal land claims. Following the ratification of a negotiated agreement, these assets are transferred to the Aboriginal group.

Changes in this account are summarized in the following table:

(in thousands of dollars)

	2011				2010
	Opening Balance	Acquisitions	Transfers	Closing Balance	Closing Balance
Land held for future claims settlements	26,157	29	(19)	**26,167**	**26,157**

8. Tangible capital assets

(in thousands of dollars)

	Cost				Accumulated Amortization				Net Book Value	
Asset Class	**Opening Balance**	**Acquisitions**	**Disposals/ Adjustments**	**Closing Balance**	**Opening Balance**	**Amortization**	**Disposals/ Adjustments**	**Closing balance**	**2011**	**2010**
Land	606	-	-	606	-	-	-	-	606	606
Buildings	29,266	-	(666)	28,600	13,228	716	-	13,944	14,656	16,038
Works and infrastructure	1,444	-	-	1,444	1,315	44	-	1,359	85	129
Machinery and equipment	8,063	341	(34)	8,370	4,960	516	(34)	5,442	2,928	3,103
Informatics hardware	38,481	1,590	(899)	39,172	33,108	1,935	(899)	34,144	5,028	5,373
Informatics software	32,324	766	3,295	36,385	12,162	2,460	-	14,622	21,763	20,162
Ships and boats	147	-	(34)	113	72	10	(34)	48	65	75
Motor vehicles	4,508	523	(360)	4,671	3,321	405	(315)	3,411	1,260	1,187
Other vehicles	434	76	-	510	319	39	-	358	152	115
Leasehold improvements	505	164	666	1,335	-	387	-	387	948	505
Assets under construction	2,324	7,800	(3,295)	6,829	-	-	-	-	6,829	2,324
Total	**118,102**	**11,260**	**(1,327)**	**128,035**	**68,485**	**6,512**	**(1,282)**	**73,715**	**54,320**	**49,617**

Disposals of assets under construction represent assets that were put into use in the year and have been transferred to the other capital asset classes as applicable.

9. Accounts payable and accrued liabilities

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

	2011	2010
	(in thousands of dollars)	
Accounts payable to other government departments and agencies	28,574	26,601
Accounts payable to external parties	406,707	487,830
	435,281	***514,431***
Accrued liabilities	462,690	617,137
Total	**897,971**	**1,131,568**

10. Other liabilities

The following table presents details of other liabilities:

	2011	2010
	(in thousands of dollars)	
Guarantee deposits	875,290	875,106
Securities held in trust	(857,016)	(854,307)
Other specified purpose accounts	50,675	38,785
Total	**68,949**	**59,584**

Guarantee deposits & securities held in trust

In fulfilling its duties under various acts that govern the use of federal Crown land, including land use activities, water resources, and water rights, AANDC may issue licences, permits, and other instruments to individuals and organizations that propose to undertake resource exploration and other types of development projects.

In accordance with the terms and conditions of the instrument, AANDC may require security deposits to ensure the lands and waters are returned in a condition acceptable to the Department. These security or guarantee deposits can be in the form of cash or paper securities (usually letters of credit).

Cash amounts received are transferred to and held in the CRF, whereas paper securities are held by AANDC and recorded in the contra-liability account securities held in trust.

Other specified purpose accounts

These include a number of Indian special accounts, the most significant of which is the Indian moneys suspense account. This account was established to hold moneys received for individual Indians and bands pending execution of the related lease, permit or licence, settlement of litigation, registration of the Indian or identification of the recipient. These moneys are then disbursed to an Indian, credited to an Indian Band Fund or Individual Trust Fund account, or returned to the payer, as appropriate.

11. Trust accounts

In accordance with the *Indian Act*, AANDC has responsibility to administer Indian moneys of bands and certain individual Indians, including minors, mentally incompetent individuals and deceased Indians.

Moneys collected or received for the use and benefit of these groups are deposited to the CRF. Pursuant to Section 61(2) of the *Indian Act*, interest on Indian moneys held in the CRF is allowed at a rate fixed from time to time by the Governor-in-Council. Interest accumulated in the accounts is compounded semi-annually.

The following table shows the Department's financial obligations in its role as administrator of these Indian moneys:

(in thousands of dollars)

	2011				**2010**
	Opening Balance	Receipts	Disbursements	Closing Balance	Closing Balance
Indian Band Funds	1,026,151	275,213	(209,436)	**1,091,928**	1,026,151
Indian Savings Accounts	38,002	4,551	(4,660)	**37,893**	38,002
Indian Estate Accounts	16,709	6,800	(5,282)	**18,227**	16,709
Total	**1,080,862**	**286,564**	**(219,378)**	**1,148,048**	**1,080,862**

Indian Band Funds

These accounts were established to record moneys belonging to Indian bands throughout Canada pursuant to sections 61 to 69 of the *Indian Act*.

Moneys are classified as either capital moneys or revenue moneys.

Capital moneys of the band include all moneys derived from the sale of surrendered lands or the sale of band capital assets. Moneys from the sale of surrendered lands can include land sales, timber sales, oil and gas royalties, and sale of gravel. Revenue moneys are all moneys not classified as capital moneys.

Moneys are generally disbursed from these accounts pursuant to an authorized request from a band.

Indian Savings Accounts

These accounts were established to record moneys belonging to certain individual Indians pursuant to sections 52 and 52.1 to 52.5 of the *Indian Act*.

Sources of moneys include inheritances and per capita distribution of band funds. Moneys are generally disbursed from these accounts pursuant to an authorized request from an individual.

Indian Estate Accounts

These accounts were established to record moneys belonging to mentally incompetent individuals and deceased Indians pursuant to sections 42 to 51 of the *Indian Act*.

Sources of moneys belonging to mentally incompetent individuals include inheritances, per capita distribution of band funds, and provincial assistance payments. Payments are made from these accounts for the maintenance and care of the individuals.

Estate accounts for deceased Indians include the proceeds of their liquidated assets that are held pending the settlement of the estate. The closing of the account usually corresponds with the final distribution to their heirs.

12. Settled claims

The liability for settled claims represents AANDC's financial obligation pursuant to agreements related to comprehensive land claims and specific claims.

Comprehensive land claims are negotiated in areas where Aboriginal title has not been dealt with by treaty or by other legal methods. In such cases, the claim is based on an Aboriginal group's traditional use and occupancy of that land. Comprehensive land claim settlements result in agreement on special rights Aboriginal peoples will have in the future with respect to lands and resources.

Specific claims address past grievances arising out of non-fulfilment of Indian treaties and other lawful obligations, the improper administration of lands and other assets under the *Indian Act*, or formal agreements that are being pursued through negotiations.

An act of Parliament, based on a negotiated agreement, establishes the authority for AANDC to make claim payments. The interest rate attached to these claim payments is set out in the act, along with a claim payment schedule. Claim payments are generally made over a number of years.

At March 31, 2011, AANDC had 12 outstanding settled claims (11 in 2010). Payments totalled $99,000,000 in 2011 ($104,000,000 in 2010).

The present value of the liability for settled claims, calculated using the appropriate Consolidated Revenue Fund Monthly Lending Rate as published by the Department of Finance, at March 31, 2011 is $623,684,000 ($538,411,000 in 2010).

Future scheduled claim payments are as follows:

(in thousands of dollars)

	2012	2013	2014	2015	2016 and thereafter	Total
Scheduled payments	115,000	89,000	78,000	80,000	244,000	**606,000**

13. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are classified into three categories: claims and litigation, environmental liabilities (contaminated sites) and loan guarantees.

Claims and litigation

There are hundreds of claims and pending and threatened litigation cases outstanding against the Department. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

There are four significant types of claims faced by the department: comprehensive land claims, specific claims, general litigation claims, and claims arising from the legacy of Indian residential schools.

There are 80 (76 in 2010) comprehensive land claims and 487 (548 in 2010) specific claims under negotiation, accepted for negotiation, or under review and legal proceedings for 514 (528 in 2010) claims being pursued through the courts still pending at March 31, 2011. And there are thousands of claims being managed by the Department with respect to the legacy of Indian residential schools, including class action claims, as well as claims submitted under its Alternative Dispute Resolution process and its Independent Assessment Process.

AANDC has recorded a provision of $11,663,760,000 ($12,050,572,000 in 2010) as an estimate of the likely liability that will result from the above claims. This estimate includes projections based on historical rates and costs of settlement of similar claims. Exposure to liability in excess of the amount accrued is $157,505,000 ($408,607,000 in 2010) and an additional amount of $3,836,000,000 ($3,845,249,000 in 2010) is considered uncertain as the probability of the occurrence or non-occurrence of the future event confirming that a liability existed at the financial statement date cannot be determined.

Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is obligated to incur such costs.

AANDC has identified 665 sites (575 sites in 2010) for which a liability of $2,015,473,000 ($1,901,998,000 in 2010) has been recorded. Estimated additional clean-up costs of $61,673,000 ($497,859,000 in 2010) have not been accrued, as the likelihood of incurring these costs cannot be determined at this time.

AANDC'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 the Department in the year in which they become likely and are reasonably estimable.

Loan guarantees

As at March 31, 2011, AANDC has issued loan guarantees under its On-Reserve Housing Guarantee program of $1,897,592,000 ($1,847,388,000 in 2010) and under its Indian Economic Development Guarantee program of $569,000 ($661,000 in 2010). AANDC's authority limit for issuing loan guarantees under these programs is $2.2 billion ($2.2 billion in 2010) and $60 million ($60 million in 2010) respectively.

A provision for losses on loan guarantees is recorded when it is likely that a payment will be made in the future to honour a guarantee and when the amount of the loss can be reasonably estimated. The provision is determined by taking into consideration the weighted average of the contingent liability and the historical percentage of default. The provision is reviewed on at least an annual basis with any changes being charged or credited to current year's expenses.

The provision for losses for each loan guarantee program is as follows:

	2011	**2010**
	(in thousands of dollars)	
On-Reserve Housing Guarantee Program	1,600,000	1,600,000
Indian Economic Development Guarantee Program	55,000	60,000
Total	**1,655,000**	**1,660,000**

14. Employee future benefits

Pension benefits

AANDC's employees participate in the Public Service Pension 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 are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. For the year ended March 31, 2011, the expense amounts to $49,260,000 ($50,540,000 in 2010), which represents approximately 1.9 times (1.9 in 2010) the contributions by employees.

AANDC’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

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

	2011	**2010**
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	74,320	78,549
Expense for the year	13,264	1,501
Benefits paid during the year	(7,017)	(5,730)
Accrued benefit obligation, end of year	**80,567**	**74,320**

15. Restricted Equity of Canada

A portion of the Department's equity is restricted to be used for a specific purpose. Related revenues and expenses are included in the Statement of Operations.

The Environmental Studies Research Fund account was established pursuant to the *Canada Petroleum Resources Act* and related regulations to record levies stipulated under the Act. The balance of the account is to be used to finance environmental and social studies pertaining to the manner in which, and the terms and conditions under which, exploration, development and production activities on frontier lands authorized under this Act or any other Act of Parliament should be conducted. The balance of the account at the end of the year is included in Equity of Canada. Activity in the account is as follows:

	2011	2010
	(in thousands of dollars)	
Environmental Studies Research Fund - Restricted		
Balance, beginning of year - Restricted	2,536	380
Revenue	1,736	2,156
Expenses	(2,100)	-
Balance, end of year - Restricted	***2,172***	***2,536***
Unrestricted Equity of Canada, end of year	(13,548,173)	(13,719,166)
Total Equity of Canada, end of year	**(13,546,001)**	**(13,716,630)**

16. Contractual obligations

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

(in thousands of dollars)

	2012	2013	2014	2015	2016 and thereafter	Total
Transfer payments	1,528,068	1,208,855	787,430	643,991	788,159	**4,956,503**
Service contract	5,747	5,746	-	-	-	**11,493**
Total	**1,533,815**	**1,214,601**	**787,430**	**643,991**	**788,159**	**4,967,996**

17. Related party transactions

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

	2011	**2010**
	(in thousands of dollars)	
Accommodation	37,004	34,711
Employer's contribution to the health and dental insurance plans	34,770	34,377
Legal services	17,084	29,920
Worker's compensation	483	495
Total	**89,341**	**99,503**

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in AANDC's Statement of Operations.

b) Other transactions with related parties

	2011	**2010**
	(in thousands of dollars)	
Expenses – Other Government departments and agencies	300,571	251,270
Revenues – Other Government departments and agencies	1,776	2,362

Notes to the Financial Statements (*Unaudited*)

18. Segmented information

Presentation by segment is based on AANDC'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 each of AANDC's strategic outcomes, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

(in thousands of dollars)	People	Economy	Government	North	Internal Services	Land	Office of the Federal Interlocutor	2011 Total	2010 Total
Transfer Payments									
First Nations	2,788,330	1,344,152	1,621,949	25,466	-	110,995	24,549	5,915,441	5,133,125
Provincial/territorial governments and institutions	545,023	48,527	54,589	114,048	-	18,110	877	781,174	740,653
Non-profit organizations	24,368	1,956	2,871	7,872	-	108	3,619	40,794	34,629
Industry	8,803	10,373	67	111	-	247	210	19,811	21,922
Other	299	-	-	6,640	-	-	-	6,939	5,901
Refunds/adjustments to prior years' expenditures	(39,472)	(12,846)	(5,006)	(5,804)	-	(2,437)	(1,507)	(67,072)	(102,347)
Total Transfer Payments	**3,327,351**	**1,392,162**	**1,674,470**	**148,333**	**-**	**127,023**	**27,748**	**6,697,087**	**5,833,883**
Operating Expenses									
Salaries and employee future benefits	95,381	46,395	91,203	67,680	177,682	42,060	7,041	527,442	506,366
Court awards and other settlements	411,742	-	-	10	47,382	-	-	459,134	384,778
Professional and special services	68,295	11,536	19,086	116,070	158,096	16,025	2,192	391,300	356,781
Environmental liabilities (accrued)	-	-	-	165,606	-	(52,131)	-	113,475	330,650
Northern parcel service	-	-	-	59,000	-	-	-	59,000	58,314
Accommodations	7,029	2,762	4,431	2,901	16,841	2,587	453	37,004	34,711
Travel and relocation	9,488	3,137	5,710	8,263	6,833	2,355	920	36,706	41,752
Machinery and equipment	1,499	162	257	880	13,278	358	105	16,539	17,972
Transportation and telecommunications	962	161	115	1,567	11,303	264	140	14,512	12,194
Information services	7,707	170	227	636	2,865	247	37	11,889	13,659
Rentals of buildings and machinery	981	176	159	4,803	4,960	213	20	11,312	11,598
Utilities, materials and supplies	1,312	981	291	1,754	3,354	308	48	8,048	8,467
Amortization expense	105	-	17	462	5,922	6	-	6,512	10,440
Repairs and maintenance	197	450	104	776	3,824	66	17	5,434	4,427
Other	(2,888)	1,903	511	10,229	(2,740)	55	16	7,086	525
Bad debt expense	-	(1,358)	(948)	-	98	-	-	(2,208)	34,368
Refunds/adjustments to prior years' expenditures	(231)	(95)	(316)	(712)	(1,335)	(1,206)	-	(3,895)	(26,783)
Claims and litigation (accrued)	656,440	-	(1,043,252)	-	-	-	-	(386,812)	1,630,926
Total Operating Expenses	**1,258,019**	**66,380**	**(922,405)**	**439,925**	**448,363**	**11,207**	**10,989**	**1,312,478**	**3,431,145**
Total Expenses	**4,585,370**	**1,458,542**	**752,065**	**588,258**	**448,363**	**138,230**	**38,737**	**8,009,565**	**9,265,028**

Revenues									
Resource royalties	-	-	-	124,211	-	-	-	124,211	112,700
Norman Wells project profits	-	-	-	102,181	-	-	-	102,181	74,244
Interest on loans	-	-	4	8,175	835	25	-	9,039	8,920
Leases and rentals	-	2,247	4,654	-	-	12	-	6,913	4,173
Miscellaneous	-	-	29	5,082	-	-	-	5,111	5,606
Total Revenues	**-**	**2,247**	**4,687**	**239,649**	**835**	**37**	**-**	**247,455**	**205,643**
Net Cost of Operations	**4,585,370**	**1,456,295**	**747,378**	**348,609**	**447,528**	**138,193**	**38,737**	**7,762,110**	**9,059,385**

The major categories of revenue are described below.

Resource royalties
The most significant sources of resource royalty revenues are those earned pursuant to the *Northwest Territories and Nunavut Mining Regulations* (formerly the *Canada Mining Regulations*) and the *Frontier Lands Petroleum Royalty Regulations*.

The *Northwest Territories and Nunavut Mining Regulations* (the Mining Regulations) prescribe a profit-sharing formula upon which royalty revenues are based. AANDC receives a percentage of the profits companies earn from the sale of minerals extracted from land leased by these companies pursuant to the Mining Regulations. The Mining Regulations prescribe that royalties are generally payable four months after the fiscal year-end of the company.

The *Frontier Lands Petroleum Royalty Regulations* (the Royalty Regulations) also prescribe a profit-sharing formula upon which royalty revenues are based. AANDC receives a percentage of the profits companies earn from the sale of oil and gas extracted from the land, which the company has the right to use pursuant to a production licence issued under the authority of the *Canada Petroleum Resources Act*. The Royalty Regulations prescribe that royalties are generally payable on the last day of the month following the month of production.

Norman Wells project profits
This project is a source of revenues earned pursuant to a contract between AANDC and Imperial Oil. This contract prescribes a profit-sharing formula and sets out a payment schedule, whereby payments are made annually to AANDC no later than March 20.

Leases and rentals
The major source of lease and rental revenues is lease fees prescribed in the Mining Regulations. After a waiting period of 10 years, companies may lease land in the North for purposes of exploration and extraction of minerals. Leases are for a period of 21 years and are renewable. Lease fees are set out in the Mining Regulations and are payable annually on the anniversary date of the signing of the lease.

19. Change in accounting estimate

During the year, AANDC undertook a comprehensive review of its accounting estimate for certain contingent liabilities. Using the improved costing methodology implemented in the prior year and new information which became available, the accounting estimate for these contingent liabilities increased significantly.

The net effect of the change on the amounts reported for expenses and liabilities recognized in the current year is summarized below.

(in thousands of dollars)

Provision for claims and litigation	700,572

20. Adoption of new accounting policies

During the year, AANDC adopted the revised Treasury Board accounting policy TBAS 1.2: Departmental and Agency Financial Statements which is effective for the Department for the 2010-11 fiscal year. The major change in the accounting policies of the Department required by the adoption of the revised TBAS 1.2 is the recording of amounts due from the Consolidated Revenue Fund as an asset on the Statement of Financial Position.

The adoption of the new Treasury Board accounting policies have been accounted for retroactively with the following impact on the comparatives for 2009-10:

	2010		2010
	As previously stated	**Effect of changes**	**Restated**
Statement of Financial Position:		*(in thousands of dollars)*	
Assets	955,949	2,184,562	3,140,511
Equity of Canada	(15,901,192)	2,184,562	(13,716,630)

21. Comparative information

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

Summary of the assessment of effectiveness of the system of Internal Control over Financial Reporting and the action plan of Aboriginal Affairs and Northern Development Canada
For fiscal year 2010-11

Annex to the
Statement of Management Responsibility Including Internal Control over Financial Reporting

Note to the reader

With the Treasury Board *Policy on Internal Control,* effective April 1, 2009, departments are now required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their Statements of Management Responsibility a summary of their assessment results and an action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- Applicable laws, regulations and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that is balanced with, and proportionate to, the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

Notes to the Financial Statements (*Unaudited*)

1 Introduction

This document is attached to the Aboriginal Affairs and Northern Development Canada (AANDC) *Statement of Management Responsibility Including Internal Control Over Financial Reporting* for the fiscal year 2010-11**.** As required by the Treasury Board *Policy on Internal Control*, effective April 1, 2009, this document provides summary information on the measures taken by AANDC to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by AANDC as at March 31, 2011, including progress, results, and related action plans, along with some financial highlights pertinent to understanding the control environment unique to the department. This is the second annex produced by this department.

1.1 Authority, Mandate and Program Activities

AANDC is one of the federal government departments responsible for coordinating and fulfilling the Government of Canada's obligations and commitments to Aboriginal people (First Nations, Inuit, and Métis), and Northerners.

AANDC supports Aboriginal people and Northerners in their efforts to:

- Improve social well-being and economic prosperity;
- Develop healthier, more sustainable communities; and
- Participate more fully in Canada's political, social, and economic development — to the benefit of all Canadians.

Detailed information on AANDC's authority, mandate and program activities can be found in the *Departmental Performance Report* and the *Report on Plans and Priorities*.

1.2 Financial highlights:

Financial information can be found in the financial statements (unaudited) of Aboriginal Affairs and Northern Development Canada for fiscal-year 2010-2011. Information can also be found in the Public Accounts of Canada.
In summary:

- Total expenses were $8.1B. Transfer payments represent the majority (83% or $6.7B) followed by salaries (6% or $527M for 5,297 employees). Approximately 74% or $6.0B of total expenses is to provide education, health and social programs to First Nations and Inuit communities.
- Transfer payments are managed centrally under the First Nation & Inuit Transfer Payment System (FNITP) which is fully integrated with Oracle Financial System (OASIS).
- Total revenues were $247M largely from the Resource Royalty Revenues (51% or $124M) and Norman Wells project profit (42% or $102M).
- Total assets were $3B. The 'Due from Consolidated Revenue Fund (CRF)' represents the majority (68% or $2B). This amount is the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. The loans receivable represents 25% ($773M) of departmental total assets. The majority 99% or $764M of total loans

receivable are from the Direct Loans portfolio, which has two active programs – the Native claimants and the First Nations in British Columbia.
- Total liabilities were $17B. The allowance for claims and litigation comprise the majority (70% or $12B) followed by environmental liabilities (12% or $2B).
- AANDC has a strong finance function – utilizing the CFO model, with a CFO reporting directly to the Deputy Head. The CFO is responsible for setting financial policy, undertaking financial planning and monitoring functions, and providing financial advice and guidance to the Department as required.
- AANDC operates under a decentralized model whereby there are using a common financial system.
- AANDC has a common Oracle Financial System (OASIS) which is supported by five (5) significant and integrated subsystems (First Nation & Inuit Transfer Payment System [FNITP] which now incorporate the Guaranteed Loan Management Module (GLMM), Resource Information Management System [RIMS], OASIS Salary Management System/Regional Pay System [OSMS/RPS], and Trust Fund Management System [TFMS].

1.3 Service arrangements relevant to financial statements

The Department relies on other organizations for the processing of certain transactions that are recorded in its financial statements:
Common arrangements:

- Public Works and Government Services Canada centrally administers the payments of salaries and benefits, the procurement of some goods and services, as well as the provision of accommodations on behalf of AANDC;
- Justice Canada provides legal services.
- Human Resources and Social Development Canada provides Worker's Compensation coverage;
- Treasury Board Secretariat provides AANDC with a) a percentage ratio to be used when calculating the severance pay liability for purposes of its financial statements and b) an annual dollar figure for the services it provides without charge for the health and dental care insurance plans, which are funded centrally.

1.4 Material changes in fiscal year 2010-11

Ms. Susan MacGowan, CMA became AANDC's new Chief Financial Officer effective May 25, 2010.

2 Control environment of AANDC relative to ICFR

The department recognizes the importance of setting the tone from the top to help ensure that staff at all levels understands their roles in maintaining effective systems of ICFR and is well equipped to exercise these responsibilities effectively. The Department's focus is to ensure risks are managed well through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key positions, roles and responsibilities

Below are AANDC's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Deputy Head – As Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Head chairs the Senior Management Committee, the Executive Committee, the Policy Committee and the Evaluation, Performance Measurement Review Committee. He also attends the Departmental Audit Committee, the Operations Committee, the Financial Management Committee and the Human Resources Workplace Services and Management Committee.

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

Senior Departmental Managers – Are responsible for reviewing and maintaining the effectiveness of their system of ICFR in their area of responsibilities.

Chief Audit Executive (CAEE) – Reports directly to the Deputy Head and provides assurance on the integrity of the Department's financial management and financial reporting processes and the effectiveness and adequacy of risk management, internal controls, governance and accountability processes through periodic internal audits, which are instrumental to the maintenance of an effective system of ICFR. The CAEE is also the Chief Risk Officer (CRO) of the Department and as such provides support and assists management in ongoing risk management activities across the Department.

Departmental Audit Committee (DAC) – Is an advisory committee that provides objective views on the Department's risk management, control and governance frameworks. It is comprised of five external members and was established in June 2007. As such, it reviews AANDC's Corporate Risk Profile and its system of internal control, including the assessment and action plans relating to the system of ICFR.

2.2 Key measures taken by the Aboriginal Affairs and Northern Development Canada

AANDC's control environment also includes a series of measures to equip its staff to properly manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. Key measures include:

- The Centre of Integrity, Values, and Conflict Resolution under the Corporate Secretariat;
- A dedicated division, under the Chief Financial Officer, on internal control;
- Annual performance agreements with clearly set-out financial management responsibilities;
- Training and communications in core areas of financial management;
- Departmental policies tailored to AANDC's control environment (e.g. Account Verification Framework, Revised Transfer Payments Policy) that are reflected in the Financial Management Manual;
- Regularly updated delegated authorities matrix;

- A departmental Management Control Framework for Grants and Contributions;
- The documentation of significant business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- Information Technology processing systems to achieve greater security, integrity, efficiency and effectiveness;
- Rigorous oversight and review of ongoing resource utilization through monthly financial status reports; and
- Continuous monitoring of entity-level controls to ensure they are fully documented and aligned with ICFR objectives.

3 Assessment of AANDC's system of Internal Control over Financial Reporting

3.1 Assessment approach

To satisfy the requirements of the *Policy on Internal Control*, the department must be able to maintain an effective system of ICFR with the objective to provide reasonable assurance that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded; and
- Applicable laws, regulations and policies are followed.

Over time, this includes the assessment of design and operating effectiveness of the system of ICFR to ensure the on-going monitoring and continuous improvement of the departmental system of ICFR.

Design effectiveness means ensuring that the key control points are identified, documented, in place and are aligned with the risks (i.e. controls are balanced with, and proportionate to, the risks they aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location, as applicable.

Operating effectiveness means that the application of key controls has been tested over a defined period and that any required remediation is addressed.

Such testing covers all departmental control levels, which include corporate, or entity, general computer, and business process controls.

To achieve AANDC’s ICFR objective, AANDC adopted the following ICFR approach:

Step 1: Risk Assessment and Scoping
- Determine Materiality
- Perform Risk Assessment Analysis
- Map significant accounts to business processes and IT infrastructure

Step 2: Documentation of Control Activities
- Develop controls documentation for each control level
- Create Control Matrices

Step 3: Evaluate Design Effectiveness of Controls

Step 4: Remediate Design Effectiveness Deficiencies

Step 5: Evaluate Operational Effectiveness of Controls

Step 6: Remediate Operational Effectiveness Deficiencies

Step 7: Ongoing Monitoring of Controls

3.2 Scope of departmental assessment during fiscal year 2010-11

The Department continued with the assessment of its system of ICFR on the following significant accounts and locations in 2010-11:

Work stream – Control Level	Significant Account	Design Assessment	Operational Assessment	Location
Entity-Level Controls (ELC)	- Control Environment - Risk Assessment - Control Activities - Information and Communication - Monitoring	* * * * *		HQ
Business Process	- Purchases, Payables and Payments (PPP) - Revenue Management & Guaranteed Deposits - Tangible Capital Assets	√ √	*	HQ & Regions HQ HQ

* Partially completed.
√ Completed.

For the design assessment of both significant accounts, the following work has been completed:

- Gathering information pertaining to processes risks and controls relevant to ICFR, including appropriate policies and procedures;
- Mapping out key process using flowcharts, narratives and control matrices to identify key risk and control points;
- Conducting walk through of business processes in Northwest Territories to confirm that the controls are functioning as specified in the design documentation; and
- As a result of the assessment performed, remediation/actions plans have been prepared to address the concerns and deficiencies.

The Department commenced the operational assessment of the Purchase, Payables and Payments.

Progress was made on the assessment of ELC design adequacy including validation of management's remediation of documentation gaps. Leveraging the Committee of Sponsoring Organizations (COSO) framework, and input from key departmental stakeholders (e.g. Audit and Evaluation and CFO Sectors) as well as the Office of the Comptroller General (OCG), a design assessment tool was developed which included ICFR-specific control objectives and expected controls within each ELC element.

Design assessment commenced in late fiscal 2010-11 with circulation of the assessment tool to key ELC process/document owners who commenced a design self assessment. The self-assessment is scheduled to be completed and independently validated in fiscal 2011-12.

4 AANDC's assessment results during fiscal year 2010-11

4.1 Design effectiveness of key controls

As a result of the design effectiveness assessment approach, AANDC identified the following significant adjustments required:

Entity-Level Controls

While design assessment of ELC is not scheduled for completion until fiscal 2011-12, results of the steps taken during 2010-11 indicate the following:

- There has been recent improvements regarding the clarity and significance of ELC objectives as they relate to ICFR;
- There has been recent improvements regarding the clarity of ownership of key ELCs throughout the Department; and
- There are important initiatives underway that will serve to enhance the design effectiveness of ELC (e.g. significant updates to the Financial Management Manual).

Business Process Controls

Tangible Capital Assets:

- To improve tracking and updating of asset master records and verifying existence of individual capital assets, in particular for equipment and vehicles.
- To clarify standards for the capitalization of projects and related eligible expenses particularly for the in-house information system development.

Revenue Management:

- To improve guidelines and procedures for the management of the Irrevocable Letter of Credit life cycle for the mining and exploration activities.

4.2 Operating effectiveness of key controls

In 2010-11, AANDC developed a generic Operational Effectiveness Testing Approach and Methodology for all of AANDC's ICFR areas of focus.

This approach is the first in a series of testing of activities scheduled to be conducted over the next two years. All activities are expected to have their operating effectiveness testing of manual control completed by year 2013-14.

The PPP Operating Effectiveness Testing Plan included the testing of all key internal controls within the PPP processes within regions and headquarters for AANDC. Testing entailed the examination of a control across the department in relationship to its objective. Sampling was employed as the method for testing, which is the process of applying audit procedures to less than the total population, representative of the entire population. The extent of testing was based on random stratified sampling and the level of assurance management expected to be derived from the test.

The review concluded that AANDC did not maintain an overall effective internal control in all of the key activities of Purchases, Payables, and Payments (PPP) financial reporting. In particular, key controls failed due mainly to the lack of proper application of Section 41 and Section 34 of the Financial Administration Act, which would have a material effect on the financial statements. In each of the PPP processes, there were other medium and low risk controls that passed or failed, depending on their testing results.

All controls that scored as failed were documented in a remedial action plan. This plan will be submitted to the applicable control user(s) for their comments and planned corrective action. After a reasonable timeframe, the controls will be re-tested using a current sample to ensure that it is operating as intended.

5 AANDC's action plan

5.1 Progress during fiscal year 2010-11

During 2010-11, the department has made significant progress in the implementation of the previous year's remediation plan. This includes, but is not limited to:

- An update of the Department's Delegation of Financial Signing Authorities;
- Implementation of the Account Verification Framework for the Operating & Maintenance expenses.

The Department has also substantially advanced in the following areas:

- Updates to the following policies in the Financial Management Manual (Account Verification Framework, Acquisitions Cards and the PAYE); the Department's has commenced the work on the Gifts, Hospitality and the Honorarium Policies.
- As part of the Environmental Liability Framework implementation, there have been internal monitoring processes developed to review the environmental liability report.
- The Material Management Unit has introduced a policy and procedures for unmatched invoices (payments).

Also, the Department has continued to make significant progress in assessing and improving its key controls. Below is a summary of the main progress made by the Department:

Summary of progress during fiscal year 2010-11:

Elements in action plan	**Plan for 2010-11 per prior year's action plan**	**Actual – 2010-11**
Assessment of design effectiveness of key controls:		
Review of existing documentation of entity level, general IT, and key business process controls	Tangible Capital Assets Revenue Management and Guaranteed Deposits	Completed as planned Completed as planned

Documentation of key risks and key controls	Tangible Capital Assets Revenue Management and Guaranteed Deposits	Completed as planned Completed as planned
Testing of design effectiveness of key controls	Tangible Capital Assets Revenue Management and Guaranteed Deposits ELC	Completed as planned Completed as planned Partially completed
Remediation of key control design deficiencies	Grants and Contributions Purchases, Payables and Payments Payroll Trust Accounts Direct Loans Guaranteed Loans Comprehensive Claims Specific Claims Environmental Liabilities General Litigation Liabilities Financial Reporting ELC	Completed as planned Completed as planned Completed as planned Completed as planned Completed as planned Completed as planned Completed as planned Completed as planned Substantially advanced Completed as planned Completed as planned Not started
Assessment of operating effectiveness of key controls:		
Testing of operating effectiveness of key controls	Purchases, Payables and Payments	Substantially advanced
Remediation of operating effectiveness of key control deficiencies	Purchases, Payables and Payments	Commenced in 2011-12

AANDC continues to implement a departmental Environmental Liability Control Framework to address control weaknesses identified in 2009-10 during the design effectiveness assessment. The implementation of the control framework is scheduled to be completed in fiscal 2012.

5.2 Action plan for the next fiscal year and future subsequent years

Building on progress to date, AANDC is positioned to complete the assessment of its system of ICFR in 2013-14.

By end of 2011-12 AANDC plans to have:

- Completed the testing of design effectiveness of the following remaining of control areas as well as address any related remediation: Contingent Liability (Non litigation), the Legacy of Indian Residential School Liabilities and the Entity-Level Controls processes.
- Continued the advancement of the testing of the operational effectiveness at all levels as well as address any related remediation. Focus in this particular year will be Grants & Contributions, Payroll, Trust Funds, Direct Loans, Guaranteed Loans and General Computer controls for all of the departmental financial systems.
- Completed the implementation of the environmental Liability Control framework.

By end of 2012-13 AANDC plans to have:

- Continued advancement of the testing of the operational effectiveness of key controls at all levels as well as addresses any related remediation. Focus for this particular year to be Comprehensive Claims, Specific claims, Environmental Liabilities, General Litigation Liabilities, Financial Reporting, and the Entity Level Controls.

By end of 2013-14 AANDC plans to have:

- Continue advancement of the testing of the operational effectiveness of key controls at all levels as well as address any related remediation. Focus in this particular year to be Revenue Management and Guaranteed Deposits, Tangible Capital assets, Non litigation Liabilities and Legacy of Indian Residential School Liabilities.
- An on-going risk-based monitoring program to ensure that an effective system of internal controls over financial reporting is maintained and those significant changes to entity, IT general and business processes level controls are documented in a timely manner and key internal controls are tested.

Notes to the Financial Statements (*Unaudited*)

Action Plan Summary – Completed in previous years, completed in current year, next fiscal year and subsequent years

Control Level	Assess Design Effectiveness	Remediate Design Effectiveness	Assess Operational Effectiveness	Remediate Operational Effectiveness
Entity Level Controls	PCD - 2011-12	PCD - 2011-12	PCD - 2012-13	PCD - 2012-13
Information Technology General Controls				
OASIS	CPY - 2007-08	PCD - 2011-12	CPY - 2007-08	PCD - 2011-12
FNITP/GLMM	CPY - 2007-08	PCD - 2011-12	CPY - 2007-08	PCD - 2011-12
RIMS	CPY - 2007-08	PCD - 2011-12	CPY - 2007-08	PCD - 2011-12
OSMS/RPS	CPY - 2008-09	PCD - 2011-12	CPY - 2008-09	PCD - 2011-12
GLMS	PCD – 2011-12	PCD - 2011-12	PCD - 2011-12	PCD - 2011-12
TFMS	PCD - 2011-12	PCD - 2011-12	PCD - 2011-12	PCD - 2011-12
Business Processes				
Grants and Contributions	CPY - 2008-09	CCY – 2010-11	PCD - 2011-12	PCD - 2011-12
Purchases, Payables and Payments	CPY - 2008-09	CPY - 2009-10	PCD - 2011-12	PCD - 2011-12
Payroll	CPY - 2008-09	CCY – 2010-11	PCD - 2011-12	PCD - 2011-12
Trust Accounts	CPY - 2009-10	CCY – 2010-11	PCD - 2011-12	PCD - 2011-12
Direct Loans	CPY - 2009-10	CCY – 2010-11	PCD - 2011-12	PCD - 2011-12
Guaranteed Loans	CPY - 2009-10	CCY – 2010-11	PCD - 2011-12	PCD - 2011-12
Revenue Management & Guaranteed Deposits	CCY – 2010-11	PCD - 2011-12	PCD - 2013-14	PCD - 2013-14
Tangible Capital Assets	CCY – 2010-11	PCD - 2011-12	PCD - 2013-14	PCD - 2013-14
Comprehensive Claims	CPY - 2009-10	CCY – 2010-11	PCD - 2012-13	PCD - 2012-13
Specific Claims	CPY - 2009-10	CCY – 2010-11	PCD - 2012-13	PCD - 2012-13
Environmental Liabilities	CPY - 2009-10	PCD - 2011-12	PCD - 2012-13	PCD - 2012-13
General Litigation Liabilities	CPY - 2009-10	CCY – 2010-11	PCD - 2012-13	PCD - 2012-13
Non-Litigation Liabilities	PCD - 2011-12	PCD - 2011-12	PCD - 2013-14	PCD - 2013-14
Legacy of Indian Residential School Liabilities	PCD - 2011-12	PCD - 2011-12	PCD - 2013-14	PCD - 2013-14
Financial Reporting	CPY - 2008-09	CCY – 2010-11	PCD - 2012-13	PCD - 2012-13

CPY - Completed in Previous Year PCD – Planned Completion Date CCY – Completed current fiscal year