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, 2012, 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 using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of 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 (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 AANDC; 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, 2012 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of 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.

Original signed Michael Wernick

Michael Wernick
Deputy Minister

Original Signed by Susan MacGowan

Susan MacGowan, CMA
Chief Financial Officer

Gatineau, Canada
August 29, 2012

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Financial Position *(Unaudited)*

As at March 31

(in thousands of dollars)

	2012	**2011** Restated (notes 20,21)
Liabilities		
Accounts payable and accrued liabilities (note 4)	727,689	875,694
Vacation pay and compensatory leave	17,488	18,103
Other liabilities (note 5)	76,058	68,949
Trust accounts (note 6)	939,080	1,148,048
Settled claims (note 7)	519,626	594,489
Provision for claims and litigation (note 8)	10,964,626	11,988,760
Environmental liabilities (note 8)	2,370,969	2,015,473
Provision for loan guarantees (note 8)	1,465	1,655
Employee future benefits (note 9)	44,001	80,567
Total liabilities	**15,661,002**	**16,791,738**
Financial assets		
Due from the Consolidated Revenue Fund	1,706,281	2,053,931
Accounts receivable and advances (note 10)	59,503	92,889
Interest receivable (note 11)	2,008	1,458
Loans receivable (note 12)	790,044	773,586
Total gross financial assets	***2,557,836***	***2,921,864***
Financial assets held on behalf of Government		
Interest receivable (note 11)	(2,008)	(1,458)
Loans receivable (note 12)	(790,044)	(773,586)
Total financial assets held on behalf of government	***(792,052)***	***(775,044)***
Total net financial assets	**1,765,784**	**2,146,820**
Departmental net debt	**13,895,218**	**14,644,918**
Non-financial assets		
Land held for future claims settlements (note 13)	26,270	26,167
Tangible capital assets (note 14)	52,580	54,320
Total non-financial assets	***78,850***	***80,487***
Departmental net financial position (note 15)	**(13,816,368)**	**(14,564,431)**

Contingent liabilities (note 8)
Contractual obligations (note 16)
The accompanying notes form an integral part of these financial statements.

Original signed by Michael Wernick

Michael Wernick
Deputy Minister

Original signed by Susan MacGowan

Susan MacGowan, CMA
Chief Financial Officer

Gatineau, Canada
August 29, 2012

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Operations and Departmental Net Financial Position *(Unaudited)*

For the Year Ended March 31

(in thousands of dollars)

	2012 Planned Results	2012	2011 Restated (notes 20,21)
Expenses			
People	3,696,684	3,465,466	4,429,203
Land and Economy	1,511,835	1,523,260	1,596,772
Government	1,627,693	1,050,344	879,037
North	106,312	688,438	588,258
Internal Services	370,740	391,713	418,276
Office of the Federal Interlocutor	42,232	38,767	38,737
Expenses incurred on behalf of Government	(17,780)	(11,333)	2,306
Total expenses	***7,337,716***	***7,146,655***	***7,952,589***
Revenues			
Resource royalties	116,354	143,738	124,211
Norman Wells project profits	87,782	97,176	102,181
Miscellaneous	1,213	28,310	9,039
Interest on loans	9,229	7,000	6,913
Leases and rentals	5,279	4,862	5,111
Finance and administrative services	-	644	-
Revenues earned on behalf of Government	(219,857)	(281,086)	(247,455)
Total revenues	-	***644***	-
Net cost from continuing operations	**7,337,716**	**7,146,011**	**7,952,589**
Transferred operations (note 18)			
Expenses	-	16,049	30,087
Net cost of transferred operations	-	**16,049**	**30,087**
Net cost of operations before government funding and transfers	**7,337,716**	**7,162,060**	**7,982,676**
Government funding and transfers			
Net cash provided by Government	-	8,163,499	8,251,378
Change in due from the Consolidated Revenue Fund	-	(347,650)	(130,631)
Services provided without charge by other government departments (note 17)	-	95,945	89,341
Transfer of assets and liabilities to other government departments (note 18)	-	(1,671)	-
Net cost of operations after government funding and transfers	-	**(748,063)**	**(227,412)**
Departmental net financial position – Beginning of year	-	**(14,564,431)**	**(14,791,843)**
Departmental net financial position – End of year	-	**(13,816,368)**	**(14,564,431)**

Segmented information (note 19)

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

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA

Statement of Change in Departmental Net Debt *(Unaudited)*

For the year ended March 31

(in thousands of dollars)

	2012	**2011**
		Restated (notes 20,21)
Net cost of operations after government funding and transfers	**(748,063)**	**(227,412)**
Change due to tangible capital assets		
Acquisition of tangible capital assets (note 14)	9,343	11,260
Amortization of tangible capital assets (note 14)	(6,635)	(6,512)
Proceeds from disposal of tangible capital assets	(371)	(374)
Gain (loss) on disposal of tangible capital assets	(1,343)	329
Transfer to other government departments (note 18)	(2,734)	-
Total change due to tangible capital assets	***(1,740)***	***4,703***
Change due to prepaid expenses	-	(2,154)
Change due to land held for future claims settlements	103	10
Net increase (decrease) in departmental net debt	(749,700)	(224,853)
Departmental net debt – Beginning of year	**14,644,918**	**14,869,771**
Departmental net debt – End of year	**13,895,218**	**14,644,918**

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)

	2012	2011
Operating activities		Restated (notes 20,21)
Net cost of operations before government funding and transfers	7,162,060	7,982,676
Non-cash items:		
Amortization of tangible capital assets (note 14)	(6,635)	(6,512)
Gain (loss) on disposal of tangible capital assets	(1,343)	329
Services provided without charge by other government departments (note 17)	(95,945)	(89,341)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(33,386)	(34,919)
Increase (decrease) in prepaid expenses	-	(2,154)
Increase (decrease) in land held for future claims settlements	103	10
Decrease (increase) in liabilities	1,130,736	390,403
Transfer of liabilities to other government departments (note 18)	(1,063)	-
Cash used by operating activities	***8,154,527***	***8,240,492***
Capital investing activities		
Acquisition of tangible capital assets	9,343	11,260
Proceeds from disposal of tangible capital assets	(371)	(374)
Cash used in capital investing activities	***8,972***	***10,886***
Net cash provided by Government of Canada	**8,163,499**	**8,251,378**

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

ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA
Notes to the Financial Statements *(Unaudited*)
For the Year Ended March 31

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 the federal government department primarily responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Métis, and for fulfilling the federal government's constitutional responsibilities in the North. The mandate of AANDC 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 six strategic outcomes as follows:

a) People - Activities within this strategic outcome are dedicated to achieving a Canada where there is strengthened individual, family and community 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 First Nation individuals and families in being self-sufficient, secure and safe within supportive, sustainable communities;
- Support responsible Federal stewardship of the legislative, administrative and treaty obligations for which AANDC is responsible; and
- Contribute to a fair resolution of Indian residential schools.

b) Land and Economy – This strategic outcome supports the full participation of First Nations, Inuit and Métis individuals and communities in the economy. These program activities promote:

- Viable Aboriginal businesses and opportunity-ready communities;
- Timely administration of reserve lands and prudent management of contaminated sites; and
- Infrastructure which protects the health and safety of First Nation communities.

c) 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 capable and accountable First Nation governments and institutions;
- Build relationships between parties based on trust, respect, understanding, shared responsibilities, accountability, rights and dialogue; and
- Create and maintain ongoing partnerships to support historical and modern treaty structures.

d) North - Through this strategic outcome, AANDC promotes self-reliance, prosperity and well-being for the people and communities of the North. Program activities are designed to:

- Strengthen northern communities and people;
- Support scientific research and technology in the North; and
- Support the management, sustainable development and regulatory oversight of the North's natural resources.

e) 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:

- Governance and management support;
- Resource management services; and
- Asset management services.

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 program 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.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities – 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 Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

The planned results amounts in the Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2011-2012 Report on Plans and Priorities*. The future-oriented financial statements for 2011-2012 have been restated to reflect the revenue net of non-respendable amounts. This restatement resulted in a $202,077,000 increase in net cost of operations before government funding and transfers. The future oriented financial statements have been reclassified to conform to the current year presentation with the exception of transferred operations. Planned amounts do not include segregation of transferred operations as the transfer was not contemplated at the time of the forecast.

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 made by AANDC 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 authorities 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 that gave rise to the revenues takes place. Revenues that are non-respendable are not available to discharge AANDC's liabilities. While the Deputy Minister is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and therefore presented in reduction of AANDC's gross revenues.

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

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.

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

g) Accounts receivable – Accounts receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for 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 AANDC becomes aware of the contamination and is obligated, or is likely to be obligated, to incur such costs. If the likelihood of AANDC'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. AANDC 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 the remaining term of lease or useful life of the improvement
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 future benefits, the allowance for doubtful accounts 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 receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, 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

	2012	2011 Restated (notes 20, 21)
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	**7,162,060**	**7,982,676**
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(6,635)	(6,512)
Gain (loss) on disposal of tangible capital assets	(1,343)	329
Transfer of land held for future claims settlements	(55)	(19)
Services provided without charge by other government departments	(95,945)	(89,341)
Bad debt expense (not incurred on behalf of government)	(1,066)	(98)
Decrease (increase) in vacation pay and compensatory leave	615	63
Decrease (increase) in liability for settled claims	74,863	(56,078)
Decrease (increase) in provision for claims and litigation	1,024,134	386,812
Decrease (increase) in environmental liabilities	(355,496)	(113,475)
Decrease (increase) in employee future benefits	36,566	(6,247)
Decrease (increase) in accrued liabilities not charged to authorities	(20,971)	-
Refunds/adjustments to prior years' expenditures	58,668	70,967
Other	(3,642)	(831)
Total items affecting net cost of operations but not affecting authorities	***709,693***	***185,570***
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	9,343	11,260
Proceeds from disposal of tangible capital assets	(371)	(374)
Acquisitions of land held for future claims settlements	158	29
Increase (decrease) in prepaid expenses	-	(2,154)
Total items not affecting net cost of operations but affecting authorities	***9,130***	***8,761***
Current year authorities used	**7,880,883**	**8,177,007**

Notes to the Financial Statements (*Unaudited*)

b) Authorities provided and used

	2012	2011
	(in thousands of dollars)	
Authorities Provided:		
Vote 1 – Operating expenditures	1,387,289	1,403,926
Vote 5 – Capital expenditures	5,102	10,666
Vote 10 – Grants and Contributions	6,371,858	6,600,251
Vote 15 – Payment to Canada Post Corporation	-	59,000
Vote 20 – Office of the Federal Interlocutor- Operating	-	9,861
Vote 25 – Office of the Federal Interlocutor- Contributions	-	29,939
Statutory amounts	230,380	205,622
	7,994,629	***8,319,265***
Less:		
Authorities available for future years	(32,862)	(32,110)
Authorities lapsed:		
Vote 1 – Operating expenditures	(43,976)	(52,898)
Vote 5 – Capital expenditures	(3,048)	(10,643)
Vote 10 – Grants and Contributions	(33,839)	(45,276)
Vote 15 – Payment to Canada Post Corporation	-	-
Vote 20 – Office of the Federal Interlocutor- Operating	-	(647)
Vote 25 – Office of the Federal Interlocutor- Contributions	-	(680)
Statutory amounts	(21)	(4)
	(113,746)	***(142,258)***
Current year authorities used	**7,880,883**	**8,177,007**

In addition to the amount for authorities available for future years presented above, some of the other lapsed amounts may become available to AANDC in the 2013 fiscal year, but due to the timing of parliamentary approvals, these amounts had not been approved at March 31, 2012. Additional information on the use of authorities, including explanation of variances and lapsed amounts, can be found in AANDC's *Departmental Performance Report*.

4. Accounts payable and accrued liabilities

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

	2012	2011 Restated (note 21)
	(in thousands of dollars)	
Accounts payable – Other government departments and agencies	21,486	28,024
Accounts payable – External parties	283,702	406,276
Total accounts payable	***305,188***	***434,300***
Accrued liabilities	422,501	441,394
Total accounts payable and accrued liabilities	**727,689**	**875,694**

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, AANDC has recorded at March 31, 2012 an obligation for termination benefits in the amount of $20,971,000 as part of accrued liabilities to reflect the estimated workforce adjustment costs.

5. Other liabilities

The following table presents details of other liabilities:

(in thousands of dollars)

	2012					2011
	Opening Balance	Receipts	Interest	Disburse-ments	Closing Balance	Closing Balance
Guarantee deposits	875,290	375,662	-	(76,233)	**1,174,719**	875,290
Securities held in trust	(857,016)	(369,372)	-	68,712	**(1,157,676)**	(857,016)
Net cash	***18,274***	***6,290***	***-***	***(7,521)***	***17,043***	***18,274***
Other specified purpose accounts	50,675	79,805	1,293	(72,758)	**59,015**	50,675
Total other liabilities	**68,949**	**86,095**	**1,293**	**(80,279)**	**76,058**	**68,949**

Guarantee deposits and 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 AANDC. 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.

Other specified purpose accounts

These accounts are established to receive, hold and disburse monies in accordance with relevant statues, departmental policies and agreements. The most significant of these accounts is the Indian Moneys Suspense Account. This statutory 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, and for Indian locatees pursuant to land tenure instruments issued by AANDC. These moneys are eventually disbursed to individual Indians, credited to Band Fund or Individual Trust Fund accounts, or returned to payers, as appropriate.

6. Trust accounts

The following table shows AANDC's financial obligations in its role as administrator of trust accounts:

(in thousands of dollars)

	2012					2011
	Opening Balance	Receipts	Interest	Disburse-ments	Closing Balance	Closing Balance
Indian band funds	1,091,928	244,694	27,939	(482,458)	**882,103**	1,091,928
Indian savings accounts	37,893	1,476	1,039	(3,658)	**36,750**	37,893
Indian estate accounts	18,227	7,488	378	(6,965)	**19,128**	18,227
Total Indian moneys	***1,148,048***	***253,658***	***29,356***	***(493,081)***	***937,981***	***1,148,048***
Other trust accounts	-	1,099	-	-	**1,099**	-
Total trust accounts	**1,148,048**	**254,757**	**29,356**	**(493,081)**	**939,080**	**1,148,048**

Indian moneys

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.

There are three categories of Indian moneys administered by AANDC: Indian band funds, Indian savings accounts, and Indian estate accounts.

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.

Other trust accounts

Relative to AANDC's legislative mandate, trust accounts may also be established in accordance with settlement agreements, legislative authorities other than the *Indian Act*, or court decisions.

7. 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, 2012, AANDC had 12 outstanding settled claims (12 in 2011). Payments totalled $158,000,000 in 2012 ($99,000,000 in 2011).

The present value of the liability for outstanding settled claims, calculated using the appropriate Consolidated Revenue Fund Monthly Lending Rate as published by the Department of Finance, at March 31, 2012 is $519,626,000 ($594,489,000 in 2011)

Future scheduled claim payments are as follows:

(in thousands of dollars)

	2013	**2014**	**2015**	**2016**	**2017 and thereafter**	**Total**
Scheduled payments	96,000	86,000	87,000	57,000	236,000	**562,000**

8. 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

Claims and pending and threatened litigation cases outstanding against AANDC are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur, 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 AANDC: comprehensive land claims, specific claims, general litigation claims, and claims arising from the legacy of Indian residential schools[1].

Comprehensive land claims arise in areas of the country where Aboriginal rights and title have not been resolved by treaty or by other legal means. There are currently 81 (80 in 2011) comprehensive land claims under negotiation, accepted for negotiation or under review.

Specific claims deal with the past grievances of First Nations related to Canada's obligations under historic treaties or the way it managed First Nations' funds or other assets. The Government of Canada will pursue a settlement agreement with the First Nation when a claim demonstrates an outstanding lawful obligation. There are currently 439 (487 in 2011) specific claims under negotiation, accepted for negotiation or under review.

There are legal proceedings for 531 (514 in 2011) general litigation claims being pursued through the courts still pending at March 31, 2012. There are also thousands of claims being managed by AANDC 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 $10,964,626,000 ($11,988,760,000 in 2011) 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 for similar claims. Exposure to liability in excess of the amount accrued is $151,460,000 ($157,505,000 in 2011) and an additional amount of $4,068,722,000 ($3,836,000,000 in 2011) is considered uncertain as the probability of the occurrence or non-occurrence of the future event confirming that a liability existed at the financial statements date cannot be determined.

[1] Depending on its type, a claim may be resolved with a transfer payment or an operating expenditure. As a result, the year-over-year change in the provision is allocated between transfer payment expenses and operating expenses, as shown in note 19 – Segmented information.

Environmental liabilities (Contaminated Sites)

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where AANDC is obligated or likely to be obligated to incur such costs[2].

AANDC has identified 823 sites (665 sites in 2011) where such action is possible and for which a liability of $2,370,969,000 ($2,015,473,000 in 2011) has been recorded. AANDC has estimated additional clean-up costs of $21,838,000 ($61,673,000 in 2011) that have not been accrued, as these are not considered likely to be incurred 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 AANDC in the year in which they become likely and are reasonably estimable.

Loan guarantees

As at March 31, 2012, AANDC has issued loan guarantees under its On-Reserve Housing Guarantee program of $1,820,611,000 ($1,897,592,000 in 2011) and under its Indian Economic Development Guarantee program of $648,000 ($569,000 in 2011). AANDC's authority limit for issuing loan guarantees under these programs is $2.2 billion ($2.2 billion in 2011) and $60 million ($60 million in 2011) 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 applying the weighted average historical percentage of default to total outstanding loan guarantees. The provision is reviewed at least annually, with any changes being charged or credited to current year expenses.

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

	2012	**2011**
	(in thousands of dollars)	
On-Reserve Housing Guarantee program	1,400	1,600
Indian Economic Development Guarantee program	65	55
Total provision for losses	**1,465**	**1,655**

[2] Contaminated sites may be remediated with a transfer payment or an operating expenditure. As a result, the year-over-year change in environmental liabilities is allocated between transfer payment expenses and operating expenses, as shown in note 19 – Segmented information.

9. Employee future benefits

a) Pension benefits

AANDC'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 are indexed to inflation.

Both the employees and AANDC contribute to the cost of the Plan. For the year ended March 31, 2012, the expense amounts to $51,786,000 ($49,260,000 in 2011), which represents approximately 1.8 times (1.9 in 2011) 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.

b) Severance benefits

AANDC provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of collective agreement negotiations with certain employee groups and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

	2012	2011
	(in thousands of dollars)	
Accrued benefit obligation- Beginning of year	80,567	74,320
Transferred to other government departments, effective November 15, 2011 (note 18)	(1,063)	-
	79,504	***74,320***
Expense for the year	12,323	13,264
Benefits paid during the year	(47,826)	(7,017)
Accrued benefit obligation- End of year	**44,001**	**80,567**

10. Accounts receivable and advances

The following table presents details of AANDC's accounts receivables and advances:

	2012	2011
	(in thousands of dollars)	
Receivables – Other government departments and agencies	15,366	49,886
Receivables – External Parties	59,260	57,110
Employee advances	278	236
	74,904	***107,232***
Allowance for doubtful accounts on receivables from external parties	(15,401)	(14,343)
Total accounts receivable and advances	**59,503**	**92,889**

11. Interest receivable

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

	2012	2011
	(in thousands of dollars)	
Direct loans	2,035	1,443
Defaulted guaranteed loans	514	525
	2,549	***1,968***
Less:		
Allowance for doubtful accounts	(541)	(510)
Total interest receivable (held on behalf of Government)	**2,008**	**1,458**

12. Loans receivable

The following table presents details of loans receivable:

	2012	2011
	(in thousands of dollars)	
Direct loans portfolio:		
Native claimants	459,029	453,030
First Nations in British Columbia	443,052	420,800
Other direct loans	504	509
	902,585	***874,339***
Add: Capitalized interest	4,681	7,052
Less: Allowance for doubtful loans	(126,621)	(117,431)
Net recoverable value	**780,645**	**763,960**
Defaulted guaranteed loans portfolio:		
On-reserve housing guarantees	11,315	11,826
Indian economic development guarantees	3,219	3,137
Other defaulted guaranteed loans	104	104
	14,638	**15,067**
Add: Capitalized interest	16,971	14,656
Less: Allowance for doubtful loans	(22,210)	(20,097)
Net recoverable value	**9,399**	**9,626**
Loans receivable, net recoverable value (held on behalf of Government)	**790,044**	**773,586**

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

b) once an agreement-in-principle for the settlement of a claim is reached, all loans that remain outstanding and all loans subsequently issued are interest bearing at a rate equal to the rate established by the Minister of Finance in respect of borrowings with 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:

	2012	**2011**
	(in thousands of dollars)	
Interest bearing	87,336	97,553
Non-interest bearing	371,693	355,477
Total	**459,029**	**453,030**

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 issued after April 1, 2004 and after the date on which an agreement-in-principle for the settlement of a treaty is 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:

	2012	2011
	(in thousands of dollars)	
Interest bearing	21,337	23,860
Non-interest bearing	421,715	396,940
Total	**443,052**	**420,800**

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 AANDC 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.

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 $89,000 to its reserve in 2012 ($1,354,000 in 2011) for payments covering the default of 1 loan (3 in 2011).

The various loan guarantee programs are described below.

On-reserve housing guarantee program

This program authorizes AANDC 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, AANDC restricts the eligibility of recipients for further loans until such time as a recovery plan has been approved 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 AANDC 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.

13. 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)

	2012				**2011**
	Opening Balance	Acquisitions	Transfers	Closing Balance	Closing Balance
Land held for future claims settlements	26,167	158	(55)	**26,270**	**26,167**

14. Tangible capital assets

(in thousands of dollars)

	Cost					Accumulated Amortization					Net Book Value	
Capital Asset Class	**Opening Balance**	**Acquisi-tions**	**Adjust-ments (1)**	**Disposals and Write-offs**	**Closing Balance**	**Opening Balance**	**Amortiz-ation**	**Adjust-ments**	**Disposals and Write-offs**	**Closing balance**	**2012**	**2011**
Land	606	-	-	-	606	-	-	-	-	-	606	606
Buildings	28,600	-	-	-	28,600	13,944	717	-	-	14,661	13,939	14,656
Works and infrastructure	1,444	-	-	-	1,444	1,359	45	-	-	1,404	40	85
Machinery and equipment	8,370	1,037	-	42	9,365	5,442	616	-	42	6,016	3,349	2,928
Informatics hardware	39,172	1,205	(17,581)	4,799	17,997	34,144	1,472	(14,847)	4,799	15,970	2,027	5,028
Informatics software	36,385	-	845	-	37,230	14,622	2,862	-	-	17,484	19,746	21,763
Ships and boats	113	-	-	-	113	48	10	-	-	58	55	65
Motor vehicles	4,671	307	-	625	4,353	3,411	495	-	608	3,298	1,055	1,260
Other vehicles	510	33	-	-	543	358	25	-	-	383	160	152
Leasehold improvements	1,335	453	-	-	1,788	387	393	-	-	780	1,008	948
Assets under construction	6,829	6,308	(845)	1,697	10,595	-	-	-	-	-	10,595	6,829
Total	**128,035**	**9,343**	**(17,581)**	**7,163**	**112,634**	**73,715**	**6,635**	**(14,847)**	**5,449**	**60,054**	**52,580**	**54,320**

(1) Adjustments include assets under construction of $845,000 that were transferred to the other categories upon completion of the assets.

Effective November 15, 2011, AANDC transferred informatics hardware with a net book value of $ 2,734,000 to Shared Services Canada. This transfer is included in the adjustment columns (refer to note 18 for further details on this transfer).

15. Departmental net financial position

A portion of AANDC's net financial position is restricted to be used for a specific purpose. Related revenues and expenses are included in the Statement of Operations and Departmental Net Financial Position.

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 Bowater Environmental Remediation Fund was established pursuant to a decision of the Commercial Division of the Superior Court in the Province of Quebec. The balance in the account is to be used to finance the remediation of environmental damage caused by Bowater Canadian Forest Products Inc. relative to a land lease issued by AANDC.

The balance of the funds at the end of the year is included in Departmental Net Financial Position. Activity in the funds is as follows:

	2012	**2011**
	(in thousands of dollars)	
Environmental Studies Research Fund – Restricted		
Balance – Beginning of year – Restricted	**2,172**	**2,536**
Revenues	2,026	1,736
Expenses	(2,172)	(2,100)
Balance – End of year – Restricted	***2,026***	***2,172***
Bowater Environmental Remediation Fund – Restricted		
Balance – Beginning of year – Restricted	**-**	**-**
Revenues	2,597	-
Expenses	-	-
Balance – End of year – Restricted	***2,597***	***-***
Total restricted	**4,623**	**2,172**
Unrestricted	(13,820,991)	(14,566,603)
Departmental net financial position – End of year	**(13,816,368)**	**(14,564,431)**

16. Contractual obligations

The nature of AANDC's activities can result in some multi-year contracts and obligations whereby AANDC 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)

	2013	2014	2015	2016	2017 and thereafter	Total
Transfer payments	2,226,800	1,240,614	950,166	739,500	315,117	**5,472,197**
Total	**2,226,800**	**1,240,614**	**950,166**	**739,500**	**315,117**	**5,472,197**

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. In addition, AANDC has an agreement for the provision of finance and administrative services to the Canadian Northern Economic Development Agency. 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 and Departmental Net Financial Position as follows:

	2012	2011
	(in thousands of dollars)	
Employer's contribution to the health and dental insurance plans	41,450	34,770
Accommodation	40,752	37,004
Legal services	13,269	17,084
Workers' compensation	474	483
Total	**95,945**	**89,341**

The Government has centralized some of its administrative activities for purposes of efficiency, cost-effectiveness and economical 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 and Departmental Net Financial Position.

b) Other transactions with related parties

	2012	2011
	(in thousands of dollars)	
Expenses – Other Government departments and agencies	272,375	300,571
Revenues – Other Government departments and agencies	2,852	1,776

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

18. Transfers to other government departments

Effective November 15, 2011, AANDC transferred responsibility for the provision of e-mail, data centre and network support services, including stewardship responsibility for the assets and liabilities related to the program, to Shared Services Canada. This transfer was performed pursuant to paragraph 2(a) of the *Public Service Rearrangement and Transfer of Duties Act* and Order-in-Council P.C. 2011-1297.

Accordingly, AANDC transferred the following assets and liabilities to Shared Services Canada on November 15, 2011:

(in thousands of dollars)

Assets:	
Tangible capital assets (note 14)	2,734
Total assets transferred	***2,734***
Liabilities:	
Employee future benefits (note 9)	1,063
Total liabilities transferred	***1,063***
Adjustment to the departmental net financial position	**1,671**

In addition, the 2011 comparative figures have been reclassified on the Statement of Operations and Departmental Net Financial Position to present the revenues and expenses of the transferred operations. Total expenses related to transferred operations were $16,049,000 for 2012 ($30,087,000 for 2011).

During the transition period, AANDC continued to administer the transferred activities on behalf of Shared Services Canada. The administered expenses amounted to $9,765,000 for the year. These expenses are not recorded in these financial statements and are recorded in the financial statements of Shared Services Canada.

Notes to the Financial Statements (*Unaudited*)

19. 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	Land and Economy	Government	North	Internal Services	Office of the Federal Interlocutor	2012 Total	2011 Total Restated (note 20,21)
Transfer Payments								
First Nations	2,819,280	1,332,940	1,267,776	10,110	-	25,597	5,455,703	5,886,246
Provincial/territorial governments and institutions	452,012	64,790	185,955	84,192	-	881	787,830	781,174
Industry	14,417	18,932	4	57,558	-	199	91,110	19,811
Non-profit organizations	26,489	5,682	532	5,821	-	3,442	41,966	40,794
Other	-	-	-	2,423	-	-	2,423	6,939
Contaminated sites (note 8)	-	(7,480)	-	-	-	-	(7,480)	(52,131)
Refunds/adjustments to prior years' expenditures	(20,390)	(22,079)	(3,828)	(3,324)	-	(2,552)	(52,173)	(67,072)
Claims and litigation (note 8)	-	-	(543,584)	-	-	-	(543,584)	(1,043,251)
Total Transfer Payments	**3,291,808**	**1,392,785**	**906,855**	**156,780**	**-**	**27,567**	**5,775,795**	**5,572,510**
Operating Expenses								
Salaries and employee future benefits	105,855	93,825	108,396	60,474	185,204	7,697	561,451	521,904
Court awards and other settlements	447,707	1	-	-	10,832	-	458,540	459,134
Contaminated sites (note 8)	-	-	-	362,976	-	-	362,976	165,606
Professional and special services	42,018	18,243	6,740	84,628	49,556	1,888	203,073	256,915
Legal services	27,998	24	91	7	94,985	239	123,344	129,984
Accommodations	8,951	6,736	7,420	3,906	13,213	526	40,752	37,004
Travel and relocation	9,351	4,587	5,477	5,468	6,176	645	31,704	36,486
Information services	10,860	217	333	414	5,670	89	17,583	11,888
Other	(2,729)	2,105	5,801	10,136	992	8	16,313	7,078
Bad debt	-	2,112	9,221	-	1,066	-	12,399	(2,208)
Machinery and equipment	1,109	395	349	960	8,263	32	11,108	6,234
Rentals of buildings and machinery	1,680	361	239	1,659	6,495	12	10,446	11,310
Utilities, materials and supplies	1,249	1,485	353	1,076	3,013	67	7,243	7,947
Amortization	125	21	17	404	4,973	-	5,540	4,717
Transportation and telecommunications	945	245	171	296	2,372	22	4,051	8,376
Repairs and maintenance	235	414	137	385	1,541	3	2,715	3,853
Northern parcel service	-	-	-	-	-	-	-	59,000
Refunds/adjustments to prior years' expenditures	(1,146)	(296)	(1,256)	(1,131)	(2,638)	(28)	(6,495)	(3,895)
Expenses incurred on behalf of Government	-	(2,112)	(9,221)	-	-	-	(11,333)	2,306
Claims and litigation (note 8)	(480,550)	-	-	-	-	-	(480,550)	656,440
Total Operating Expenses	**173,658**	**128,363**	**134,268**	**531,658**	**391,713**	**11,200**	**1,370,860**	**2,380,079**
Total Expenses	**3,465,466**	**1,521,148**	**1,041,123**	**688,438**	**391,713**	**38,767**	**7,146,655**	**7,952,589**

Notes to the Financial Statements (*Unaudited*)

(in thousands of dollars)	People	Land and Economy	Government	North	Internal Services	Office of the Federal Interlocutor	2012 Total	2011 Total Restated (note 20,21)
Revenues								
Resource royalties	-	-	-	143,738	-	-	143,738	124,211
Norman Wells project profits	-	-	-	97,176	-	-	97,176	102,181
Miscellaneous	1	2,901	37	25,152	218	1	28,310	9,039
Interest on loans	-	2,460	4,540	-	-	-	7,000	6,913
Leases and rentals	-	1	15	4,846	-	-	4,862	5,111
Finance and administrative services	-	-	185	-	459	-	644	-
Revenues earned on behalf of Government	(1)	(5,362)	(4,592)	(270,912)	(218)	(1)	(281,086)	(247,455)
Total Revenues	**-**	**-**	**185**	**-**	**459**	**-**	**644**	**-**
Net cost from continuing operations	**3,465,466**	**1,521,148**	**1,040,938**	**688,438**	**391,254**	**38,767**	**7,146,011**	**7,952,589**

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.

20. Accounting changes

This note should be read in conjunction with note 21 - prior year corrections. Some of the 2011 restated amounts presented hereunder are the final restated amounts and are reported on the financial statements, while other amounts are also affected by prior year corrections and have been carried forward to note 21 for further restatement.

During 2011, amendments were made to *Treasury Board Accounting Standards 1.2 - Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to the AANDC's financial statements are described below. These changes have been applied retroactively and comparative information for 2011 has been restated.

Net debt (calculated as liabilities less financial assets) is now presented in the Statement of Financial Position. Accompanying this change, AANDC now presents a Statement of Change in Departmental Net Debt and no longer presents a Statement of Equity.

Revenue and related accounts receivable are now presented net of non-respendable amounts in the Statement of Operations and Departmental Net Financial Position and Statement of Financial Position. The effect of this change was to increase the net of cost of operations before government funding and transfers by $281,086,000 for 2012 ($247,455,000 for 2011) and decrease total financial assets by $792,052,000 for 2012 ($775,044,000 for 2011).

Government funding and transfers, including the credit related to services provided without charge by other government departments, are now recognized in the Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers". In previous years, AANDC recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by $7,910,123,000 for 2012 ($8,210,088,000 for 2011).

The net effect of these changes on the 2011 comparative figures included in these financial statements is summarized below:

	2011 As previously stated	Effect of policy change	2011 Restated
	(in thousands of dollars)		
Statement of Financial Position:			
Financial assets held on behalf of Government	-	(775,044)	(775,044)
Departmental net financial position (reported as Equity of Canada in 2011)	(13,493,582)	(775,044)	(14,268,626)
Statement of Operations and Departmental Net Financial Position:			
Revenues	247,455	(247,455)	-
Expenses (net of transferred operations)	7,979,478	2,306	7,981,784
Government funding and transfers			
Net cash provided by Government	-	8,229,101	8,229,101
Change in due from Consolidated Revenue Fund	-	(108,354)	(108,354)
Services provided without charge by other government departments	-	89,341	89,341
Net cost of operations after government funding and transfers	-	(198,217)	(198,217)

21. Prior year corrections

This note should be read in conjunction with note 20 - accounting changes. All 2011 restated amounts presented hereunder are the final restated amounts and are reported on the financial statements.

During the current year, it was discovered that some transactions had been improperly reported as accrued liabilities for the 2011 fiscal year. This led to a corresponding overstatement of the asset ‘Due from Consolidated Revenue Fund’. Neither Parliamentary authorities nor departmental expenses for the 2011 fiscal year were affected by this misstatement.

It was also discovered that the liability for settled claims was overstated for the 2011 fiscal year, due to the recognition of an amount that had already been recognized as an accrued liability. The misstatement of the liability for settled claims was corrected during the 2012 fiscal year, while the accrued liability was extinguished by a cash payment.

During the 2012 third quarter contingent liability reporting exercise, a claim was reported for the first time. Upon further review, it was determined that this claim should have been reported in a prior year. This claim remains unresolved at March 31, 2012.

The net effect of these corrections on the 2011 comparative figures included in these financial statements is summarized below:

	2011 As previously stated	Effect of prior year correction	2011 Restated
	(in thousands of dollars)		
Statement of Financial Position:			
Accounts payable and accrued liabilities	897,971	(22,277)	875,694
Settled claims	623,684	(29,195)	594,489
Provision for claims and litigation	11,663,760	325,000	11,988,760
Due from Consolidated Revenue Fund	2,076,208	(22,277)	2,053,931
Departmental net financial position	(14,268,626)	(295,805)	(14,564,431)
Statement of Operations and Departmental Net Financial Position:			
Expenses	7,981,784	(29,195)	7,952,589
Government funding and transfers			
Net cash provided by Government	8,229,101	22,277	8,251,378
Change in due from Consolidated Revenue Fund	(108,354)	(22,277)	(130,631)
Net cost of operations after government funding and transfers	(198,217)	(29,195)	(227,412)
Departmental net financial position- Beginning of year	(14,466,843)	(325,000)	(14,791,843)
Departmental net financial position- End of year	(14,268,626)	(295,805)	(14,564,431)

22. 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 2011-2012

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 are 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.

1.0 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 2011-2012**.** 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, 2012, including progress, results, and related action plans, along with some financial highlights pertinent to understanding the control environment unique to AANDC. This is the third 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) ofAboriginal Affairs and Northern Development Canada for fiscal-year 2011-2012. Information can also be found in the Public Accounts of Canada.

In summary:

- Total expenses were $7.1B. Transfer payments represent the majority (81% or $5.8B) followed by salaries (8% or $561M for 5,292 FTEs at March 31, 2012). Approximately 76% or $5.5B 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 AANDC's Oracle financial system (OASIS).
- Total revenues were $282M, largely from the resource royalties (51% or $144M) and Norman Wells project profits (34% or $97M).
- Total net financial assets were $1.8B. The 'Due from Consolidated Revenue Fund (CRF)' represents the majority (97% or $1.7B). 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.

- Total liabilities were $15.7B. The provision for claims and litigation comprises the majority (70% or $11B) followed by environmental liabilities (15% or $2.4B).
- AANDC has a strong finance function, utilizing the CFO model with a CFO reporting directly to the Deputy Minister. The CFO is responsible for setting financial policy, undertaking financial planning and monitoring functions, and providing financial advice and guidance to AANDC 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 Nations & Inuit Transfer Payment System (FNITP), which now incorporates 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

AANDC 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.
- Shared Services Canada (SSC) was created on August 4, 2011 to consolidate, streamline and improve the government's information technology (IT) infrastructure services, specifically email, data centre and network services for 43 federal departments and agencies. Effective November 15, 2011, the responsibility for email, data centres and network services, including associated resources ($9.9 M), was transferred from AANDC to SSC. The administration and delivery of these services were shared during the 2011-2012 transition period while SSC was being established.

1.4. Material changes in fiscal year 2011-2012

No significant departmental changes that are relevant to financial statements occurred in 2011-2012.

2.0 Control environment of AANDC relative to ICFR

AANDC 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. AANDC'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 Minister – 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 Minister 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 Minister 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 & Evaluation Executive (CAEE) – Reports directly to the Deputy Minister and provides assurance on the integrity of AANDC'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 AANDC and as such provides support and assists management in ongoing risk management activities across AANDC.

Departmental Audit Committee (DAC) – Is an advisory committee that provides objective views on AANDC'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 that are continually being maintained include:

- The Centre for Integrity, Values, and Conflict Resolution under the Workplace/Well-being and Corporate Services;
- 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.

Other key measures taken by AANDC in 2011-2012 include:

- A Chief Financial Officer Sector Integrated Business Plan 2011-2014;
- Procurement and Contracting Desk Guide for Managers.

3.0 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*, AANDC 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.

Ongoing monitoring of controls means a process to periodically assess and sustain the management of internal controls over time in support of continuous improvement. It involves a systematic corporate approach including various mechanisms through which design and operating effectiveness are assessed and reassessed over time on a risk basis including taking the necessary corrective action.

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

3.2 Scope of departmental assessment during fiscal year 2011-2012

AANDC continued with the assessment of its system of ICFR on the following significant accounts and locations in 2011-2012:

Work stream – Control Level	**Areas of Focus**	**Design Assessment**	**Operational Assessment**	**Location**
Entity-Level Controls (ELC)	- Control Environment - Risk Assessment - Control Activities - Information and Communication - Monitoring	* * * * *		HQ
Information Technology General Controls (ITGC) (Note 1)	- TFMS - OASIS - FNITP - OSMS/RPS - RIMS	√ √ √ √ √	√ √ √ √ √	HQ HQ HQ HQ HQ
Business Processes	- Environmental Liabilities (Note 2) - Purchases, Payables and Payments (PPP) - Payroll - Grants and Contributions - Trust Accounts	*	 √ √ √ √	HQ HQ & Regions HQ & Regions HQ & Regions HQ & Regions

* Substantially completed.
√ Completed.

Note 1: For ITGC system, the design and operational assessment are completed simultaneously.
Note 2: Although design assessment is completed, the remediation is substantially completed.

The design assessment of ELC continued into 2011-2012 by engaging process owners in a control documentation exercise, conducting interviews and walk-throughs, and reviewing documented evidence of ELC design. These activities were necessary to provide a basis for understanding and accurately documenting AANDC's ELCs. These activities also contribute to the overall design assessment. AANDC commenced validation of design assessment in March 2012.

AANDC assessed the design and operating effectiveness of the ITGCs relating to the Trust Fund Management System (TFMS).

AANDC had planned to complete the remediation of design effectiveness (and complete the implementation of the Environmental Liabilities Control Framework).

For the operational assessment of the significant accounts of the business process, AANDC developed a generic Operational Effectiveness Testing Approach and Methodology applicable for all business processes. The approach and methodology for operational testing requires completing the following steps:

- Establishing a testing plan;
- Performing the assessment; and
- Determining the testing conclusion.

4.0 AANDC's assessment results during fiscal year 2011-2012

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 was not completed as planned for fiscal 2011-2012, results of the steps taken during the year indicate the following:

- There has been an exercise to streamline the description of each ELC and the description of how each control is working within AANDC.
- By March 2012, the streamlining of ELC descriptions was completed as well as identifying the evidence and other follow-up required to (a) validate revised control descriptions where applicable and (b) validate preliminary assessments of design effectiveness. By March 31, additional information and validation had occurred for a number of specific controls however none of the five control elements had been completely validated.

Environmental Liabilities

The remediation of design effectiveness was not completed as planned for fiscal 2011-2012. The activities to remediate design effectiveness that were completed indicate the following:

- The remediation plan for design effectiveness was completed. Significant progress was made in the implementation of the plan.
- An in-depth review of the initial version of the Environmental Liabilities Control Framework (ELCF) developed in 2010-2011 was revised with a view to simplifying and streamlining the framework.
- In order to address the design effectiveness gaps, a preliminary version of AANDC Policy on Accounting for Environmental Liabilities was assembled based on the Treasury Board guidance document (*Remediation Liabilities Related to Contaminated Sites: A Supplement to the Financial Information Strategy Manual*), the accounting standards in CICA Public Sector Accounting Handbook (in particular, PS 3260, *Liability for Contaminated Sites*), and the 44 internal controls over financial reporting identified in the ELCF. The draft policy included selected procedures to assist program areas with the implementation of the policy and to ensure department-wide consistency. The policy will be in place in 2012-2013.
- 7 of the 44 controls identified have not been implemented at March 31, 2012.

4.2 Operating effectiveness of key controls

Information Technology General Controls

The Control Objectives for Information Technology (COBIT) was used to determine the appropriateness of the ITGCs of AANDC systems that impact the AANDC financial statements. COBIT is an industry accepted framework for assessing IT governance and IT controls and can be linked to the four key areas as follows:

- Access to Programs and Data (security),
- Program Change Management,
- Computer Operations, and
- Program Development (and System Implementation)

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

<u>Trust Fund Management System</u> (TFMS):

A. Access to Program and Data

- The existing security framework and guidelines should be continuously disseminated to employees to reinforce security awareness.
- To perform periodic review to ascertain the appropriateness and validity of user access.

B. Program Changes

- The ticketing system should be used to capture evidence of testing and approval for all changes.

FNITP, OASIS, OSMS/RPS and RIMS

AANDC followed-up the remediation efforts to address deficiencies identified in prior ITGC assessments of AANDC's financially relevant systems (FNITP, OASIS, OSMIS/RPS and RIMS) and assessments of key automated application controls (FNITP).

All eight observations relating to the review of automated application controls for FNITP have been remediated. All high risk issues relating to AANDCs financially relevant systems have been remediated. Twenty-five percent (24 out of 96 total findings) of the findings which are rated medium-low risk have not been remediated. The issues are found under the Access to Programs and Data and Program Change Management key areas.

Business Process Controls

As a result of the operational effectiveness assessment, the overall conclusion is that AANDC maintained an effective internal control in the majority of the key activities of financial reporting. However, certain areas required corrective action and management action plans have been developed in order to further strengthen overall accountability, and to improve the management of AANDC's processes. Pertinent corrective action is described in the following business process:

Purchases, Payables and Payments (PPP)

- Strengthen the completeness of the Procurement Plan as required by the Treasury Board Policy on Long Term Capital Plans Section 5.
- Strengthen the process related to compliance with the Contracting Authority under Section 41 of the Financial Administration Act (FAA) and the Delegation of Financial Signing Authorities under Section 34 and Section 33 of the FAA.

Payroll

- Ensure that employee departure report and checklist is signed-off by authorized individuals eligible to sign the departure form.
- Strengthen the Responsibility Centre Manager's understanding of Section 34 – account verification requirements.
- Strengthen access controls to the compensatory module in PeopleSoft Human Resource Management System.

Grants and Contributions

- Strengthen clarity of roles and responsibilities and guidance to regions of AANDC's policies and directives of the management of Grants and Contributions processes.

Trust Accounts

- Ensure that regions comply with the Account Verification Framework and pre-verify Trust Fund disbursements before a Finance Officer with delegated Section 33 of the Financial Administration Act (FAA) payment authority approves the payment.

5.0 AANDC's action plan

5.1 Progress during fiscal year 2011-2012

During 2011-2012, AANDC made significant progress in the implementation of the previous year's remediation plan. This includes, but is not limited to:

- Completion of the Policy on Account Certification including the Account Certification Handbook.
- Completion of the Policy on Expenditure Initiation and Commitment Control.
- Ongoing review and updates of Internal Control over Financial Reporting related policies and procedures for each of Finance, Human Resources, Procurement & Contracting and Transfer Payments.

AANDC has also substantially advanced in the following areas:

- Updates to the following policies in the Financial Management Manual (Receivable Management, Receipts & Deposits, Direct Loans, Loans Guarantees and Capital Assets); AANDC has continued the work on the Gifts policy.
- The Materiel and Assets Management Division has introduced a Directive on Financial Limits for Real-Property Transactions by formalizing financial approval limits and reporting procedures. It has also established the Overview of Procurement and Contracting Quality Assurance Function.

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

Summary of progress during fiscal year 2011-2012:

Elements in action plan	Plan for 2011-2012 per prior year's action plan	Actual – 2011-2012
Assessment of design effectiveness of key controls:		
Review of existing documentation of entity level , general IT and key business process controls	Non-Litigation Liabilities Legacy of Indian Residential School Liabilities	No Longer Relevant No Longer Relevant
Documentation of key risks and key controls	Non-Litigation Liabilities Legacy of Indian Residential	No Longer Relevant

	School Liabilities	No Longer Relevant
Testing of design effectiveness of key controls	Non-Litigation Liabilities Legacy of Indian Residential School Liabilities ELC ITGC – TFMS (Note 1) ITGC - GLMS	No Longer Relevant No Longer Relevant Substantially advanced Completed as planned No Longer Relevant
Remediation of key control design deficiencies	Non-Litigation Liabilities Legacy of Indian Residential School Liabilities Tangible Capital Assets Revenue Management and Guaranteed Deposits Environmental Liabilities ELC ITGC (Financial Systems) - TFMS (Note 1) - GLMS - OASIS - FNITP - OSMS/RPS - RIMS	No Longer Relevant No Longer Relevant Commenced Commenced Substantially advanced Not started Commenced No Longer Relevant Completed Completed Completed Completed
Assessment of operating effectiveness of key controls:		
Testing of operating effectiveness of key controls	Purchases, Payables and Payments Grants and Contributions Payroll Trust Accounts Direct Loans Guaranteed Loans ITGC – TFMS (Note 1) ITGC – GLMS	Completed as planned Completed as planned Completed as planned Completed as planned Not started Not started Completed as planned No Longer Relevant
Remediation of operating effectiveness of key control deficiencies	Purchases, Payables and Payments Grants and Contribution Payroll Trust Accounts Direct Loans Guaranteed Loans ITGC(Financial Systems) - TFMS (Note 1) - GLMS - OASIS - FNITP - OSMS/RPS - RIMS	Completed as planned Completed as planned Commenced Completed as planned Not started Not started Commenced No Longer Relevant Completed Completed Completed Completed

Note 1: For ITGC system, the design and operational assessment are completed simultaneously.

The testing of design effectiveness of the Legacy of Indian Residential School (IRS) Liabilities and the Non-Litigation Liabilities has been removed from the action plan. Since a formalized process has been established to report contingent liability and the IRS program will be sun-setting, efforts have been re-directed towards the other areas of focus. The documentation and design effectiveness of Non-Litigation Liabilities will be addressed under the revised AANDC Directive on Contingencies.

The testing of the ITGC – Guaranteed Loan Management System (GLMS) has been removed from the action plan since it is now incorporated with FNITP as a Guaranteed Loan Management Module (GLMM). The automated controls in GLMM will be tested while performing the operational effectiveness testing assessment of the key controls for the Guaranteed Loans financial transactions.

The assessment of operating effectiveness of Direct Loans and Guaranteed Loans has been delayed to 2012-2013. It will start upon the implementation of the departmental policy on loans.

The plan for the remediation of design effectiveness of the departmental Environmental Liabilities Control Framework (ELCF) was completed in 2011-2012. The implementation of the ELCF including the remediation of design effectiveness has been delayed due to simplifying and streamlining the framework. The ELCF was revised and reduced from 59 to 44 controls.
AANDC has developed a ‘Plan and Approach to Operational Effectiveness Testing’ for the Entity-Level Controls (ELC) in order to pursue the next assessment phase.

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

Building on progress to date, AANDC continues to be positioned to complete the assessment of its system of ICFR in 2013-2014.

By end of 2012-2013 AANDC plans to have:

- Completed the testing of design effectiveness of the following remaining of control areas as well as address any related remediation: Environmental Liabilities and the Entity-Level Controls processes.
- Continued 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 will be Comprehensive Claims, Specific claims, Environmental Liabilities, General Litigation Liabilities, Financial Reporting, Entity Level Controls, Direct Loans, and Guaranteed Loans.
- Completed the implementation of the Environmental Liability Control framework which started in 2011-2012.
- Completed a draft of an on-going risk-based monitoring program.

By end of 2013-2014 AANDC plans to have:

- Completed the testing of design effectiveness of the following remaining of control areas as well as address any related remediation: Environmental Liabilities and the Entity-Level Controls processes.
- 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.
- 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.

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 2012-2013	PCD 2012-2013	PCD 2012-2013	PCD 2012-2013
Information Technology General Controls				
OASIS	CPY 2007-2008	CCY 2011-2012	CPY 2007-2008	CCY 2011-2012
FNITP/GLMM	CPY 2007-2008	CCY 2011-2012	CPY 2007-2008	CCY 2011-2012
RIMS	CPY 2007-2008	CCY 2011-2012	CPY 2007-2008	CCY 2011-2012
OSMS/RPS	CPY 2008-2009	CCY 2011-2012	CPY 2008-2009	CCY 2011-2012
TFMS	CCY 2011-2012	CCY 2011-2012	CCY 2011-2012	CCY 2011-2012
Business Processes				
Grants and Contributions	CPY 2008-2009	CPY 2010-2011	CCY 2011-2012	CCY 2011-2012
Purchases, Payables and Payments	CPY 2008-2009	CPY 2009-2010	CCY 2011-2012	CCY 2011-2012
Payroll	CPY 2008-2009	CPY 2010-2011	CCY 2011-2012	PCD 2012-2013
Trust Accounts	CPY 2009-2010	CPY 2010-2011	CCY 2011-2012	CCY 2011-2012
Direct Loans	CPY 2009-2010	CPY 2010-2011	PCD 2012-2013	PCD 2012-2013
Guaranteed Loans	CPY 2009-2010	CPY 2010-2011	PCD 2012-2013	PCD 2012-2013
Revenue Management & Guaranteed Deposits	CPY 2010-2011	CCY 2011-2012	PCD 2013-2014	PCD 2013-2014
Tangible Capital Assets	CPY 2010-2011	CCY 2011-2012	PCD 2013-2014	PCD 2013-2014
Comprehensive Claims	CPY 2009-2010	CPY 2010-2011	PCD 2012-2013	PCD 2012-2013
Specific Claims	CPY 2009-2010	CPY 2010-2011	PCD 2012-2013	PCD 2012-2013
Environmental Liabilities	CPY 2009-2010	PCD 2012-2013	PCD 2012-2013	PCD 2012-2013
General Litigation Liabilities	CPY 2009-2010	CPY 2010-2011	PCD 2012-2013	PCD 2012-2013
Financial Reporting	CPY 2008-2009	CPY 2010-2011	PCD 2012-2013	PCD 2012-2013

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