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Statement of Management Responsibility Including Internal Control Over Financial Reporting

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

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the department's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the Health Canada's Departmental Performance Report, is consistent with these financial statements.

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

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the department; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

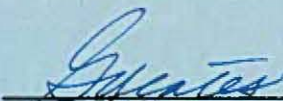
An assessment for the year ended March 31, 2011 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

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

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

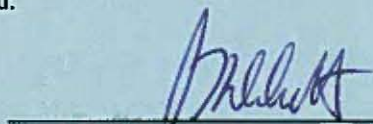
Management is supported by the Departmental Audit Committee, which ensures that the Deputy Minister has independent and objective advice, guidance and assurance as to the adequacy of risk management, control and accountability processes. The Committee is comprised of the Deputy Minister as chair, the Associate Deputy Minister and four members external to the Government.

The financial statements of Health Canada have not been audited.



Glenda Yeates
Deputy Minister
Ottawa, Canada

Date: Aug. 23, 2011



Jamie Tibbets
Chief Financial Officer
Ottawa, Canada

Date: AUG 22 2011

Health Canada's Annex to the
*Statement of Management Responsibility Including
Internal Control Over Financial Reporting*



Assessment of Internal Controls over
Financial Reporting and the Action Plan for
the fiscal year ending March 31, 2011

Note to the reader

With the Treasury Board Policy on Internal Control, effective April 1, 2009, departments are 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, to 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 action plan.

Effective systems of ICFR aim to achieve reliable financial statements along with providing assurance 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 complied with.

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 proportionate to the risks they aim to mitigate.

The maintenance of an effective system of ICFR is an ongoing process designed to identify, assess effectiveness, and adjust as required key controls to mitigate risks as well as to monitor its performance 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 the other based on risks and taking into account their unique circumstances.

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1. Introduction

This document is attached to Health Canada's (HC) Statement of Management Responsibility including Internal Control over Financial Reporting (ICFR) for the fiscal year ended March 31, 2011. As required by the Treasury Board Policy on Internal Control (PIC), this document provides summary information on the measures taken by management to maintain an effective system of ICFR. In particular, it provides summary information on the assessments conducted by HC as at March 31, 2011, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the department. This is the second year of publication of this annex.

1.1 Authority, Mandate and Program Activities

Detailed information on HC's authority, mandate and program activities can be found in the Departmental Performance Report <http://www.hc-sc.gc.ca/ahc-asc/performance/estim-previs/dpr-rmr/index-eng.php> and the Report on Plans and Priorities <http://www.hc-sc.gc.ca/ahc-asc/performance/estim-previs/plans-prior/index-eng.php>

1.2 Financial highlights

Below is key financial information for fiscal year 2010-2011. More information can be found in HC's Financial Statements (unaudited) along with the Notes to Financial Statements <http://www.hc-sc.gc.ca/ahc-asc/performance/estim-previs/dpr-rmr/2010-2011-smr-drd-eng.php#a10>. Information can also be found in the Public Accounts of Canada <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html>.

- Approximately 63% (\$2.4 billion) of the department's total spending authorities (\$3.8 billion) are derived from the First Nations and Inuit Health Programs and are incurred across Canada to provide health services to First Nations and Inuit people.
- HC has approximately 10,000 employees, with salary costs representing about 26% of authorized spending.
- HC has a regional presence of approximately 34% of the department's total employees with the remaining 66% located in the National Capital Region (NCR). The regions play a key role in delivering the department's mandate to Canadians.
- There is a decentralized finance and accounting function in each of Health Canada's regional offices which reports to the Regional Directors General under the functional leadership of the Chief Financial Officer.
- The regions initiate, approve and process a relative portion of operating expenses including goods and services, capital assets and some human resources/payroll transactions. Key control procedures for these services are performed in the regional offices.
- There are a significant number of information systems that are critical to departmental operations and financial reporting such as SAP (Systems, Applications, and Products in data processing), MCCS (Management of Contracts and Contributions System) and CRRS (Contract Requisition and Reporting System).
- As per the notes to the financial statements, which explain and expand on information contained in the financial statements, the department complies with numerous statutory and regulatory requirements.

1.3 Service arrangements relevant to financial statements

HC 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 (PWGSC) centrally administers the payments of salaries and the procurement of goods and services, as per HC's Delegation of Authority.
- Treasury Board Secretariat provides the departments with information that is used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to HC.

Specific Arrangements:

- An external service provider, pursuant to a contract with the Government of Canada, administers the Health Information and Claims Processing System for dental care, medical supplies and equipment and pharmacy benefits on behalf of the First Nations and Inuit Health Branch program. The external service provider has the authority and responsibility to ensure that claims paid on behalf of HC for services provided to First Nations and Inuit clients are made in accordance with the Terms and Conditions set out by the First Nations and Inuit Health Branch program. As a result, reliance is placed on the control procedures of the external service provider.

1.4 Material changes in fiscal year 2010-2011

Changes impacting the Financial Resources

In 2010-2011, there were no significant changes to HC authorities and no new programs were introduced. However, as part of the Canada Economic Action Plan, HC received additional funding to enhance some of its programs including:

- \$111 million invested to strengthen the Non-Insured Health Benefit program and enhance support for primary care services for First Nations and Inuit; and
- \$55 million investment in infrastructure through the Health Facilities and Capital Program for First Nations and Inuit.

Changes in Senior Management

Ms. Glenda Yeates was appointed **Deputy Minister in April 2010**.

Mr. Jamie Tibbetts was appointed to the position of **Chief Financial Officer, on March 14, 2011**. In the interim, from April 2010, Mr. Germain Tremblay, the Deputy Chief Financial Officer fulfilled the responsibilities of the position.

2. Health Canada's control environment relevant to ICFR

HC recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their role in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities

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

Key components of entity level controls in departments aim at ensuring solid **governance** and effective **risk management** at the corporate level, as well as the maintenance of **other entity level controls** to provide effective support to staff by raising awareness and providing appropriate knowledge, skills, and tools.

2.1 Key positions, roles and responsibilities

Deputy Minister - As the Accounting Officer and the Lead member of the governance structure for HC, the Deputy Minister assumes overall responsibility and leadership for the stewardship, management and oversight of departmental resources, including the measures taken to maintain an effective system of internal control.

Chief Financial Officer (CFO) - The Chief Financial Officer reports directly to the Deputy Minister. The CFO is the focal point of accountability and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR. This includes accounting, financial reporting, performance measurement and evaluation, procurement and assets management. The CFO is the chair of the Executive Sub-Committee on Finance, Evaluation and Accountability, which is one of three Assistant Deputy Minister-chaired sub-committees.

Assistant Deputy Ministers (ADM) – As senior departmental managers in charge of program delivery and reporting to the Deputy Minister, the ADMs are responsible for providing assistance with governance along with the management and oversight of the resources falling within their mandate, including financial management and reporting.

Chief Audit Executive (CAE) - The Chief Audit Executive reports directly to the Deputy Minister, independent from line management. The CAE provides assurance through periodic internal audits focused on risk management, control, and governance processes which are necessary components in maintaining an effective system of ICFR.

Departmental Audit Committee (DAC) – The Departmental Audit Committee was established in 2008 and is comprised of the Deputy Minister as chair, the Associate Deputy Minister and of four members external to the Government. In 2010-2011, the DAC met four times, to provide advice on governance, risk management and control.

Executive Committees (EC) - The Executive Committee is HC's most senior horizontal decision-making, direction setting and oversight body. It is responsible for the strategic management of the department's substantive responsibilities (i.e. regulations, legislation, policies, and programs) and corporate responsibilities. The EC is supported by three sub-committees:

1. **Finance Evaluation and Accountability (EC-FEA)** supports the EC by providing leadership and direction for departmental financial management and control; managing for results; management accountability; program evaluation; procurement and assets management; investment planning and project management; and internal audit.
2. **Internal Services (EC-IS)** supports the EC by providing strategic leadership and direction for internal service implications of new or ongoing departmental issues and related departmental policies. Areas of focus include: communications, regional operations, information technology, information management, real property, security, operational human resources, procurement and contracting, access to information and privacy (ATIP), as well as occupational health and safety.
3. **Science and Risk Management (EC-SRM)** supports the EC by providing leadership, advice and direction for emerging and on-going horizontal science and risk management issues. These could

include common risk management issues at the science - policy interface (e.g., emerging health risk issues); legal risks, horizontal science policy and legislative and regulatory policy issues; and international issues.

2.2 Key measures taken by Health Canada

The control environment is an important factor for ICFR. The Department's control environment incorporates a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. Key measures taken include establishing:

- The Ethics and Internal Ombudsman Services committed to helping employees, work teams and the Department address conflicts, workplace concerns and ethical issues holistically;
- HC's code of conduct, and code of values and ethics in support of the professional activities of its employees;
- A dedicated division on internal control reporting directly to the CFO;
- Annual performance agreements which clearly set out the financial management and reporting responsibilities of its staff;
- Formal training programs and communication documents in core areas of financial management;
- Departmental policies tailored to HC's control environment;
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- Annual review of the financial signing authority cards and update of the delegated authorities matrix as required; and,
- Information Technology (IT) processing systems to achieve greater security, integrity, efficiency and effectiveness.

In addition, HC annually updates its Corporate Risk Profile which falls under the responsibility of EC-FEA. This report outlines the key risks that need to be managed over the upcoming fiscal year in order to achieve the Department's mandate and strategic objectives. This also contributes to the departmental priority setting exercise and integrated operational planning process.

3. Assessment of Health Canada's system of ICFR

3.1 Assessment Approach

In support of the PIC an effective system of ICFR has 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.

In order to achieve this, departments are required to assess on an ongoing basis the design and operating effectiveness of the key controls over financial reporting in support of continuous improvements of the departmental system of ICFR.

Design effectiveness means ensuring that key control points are identified, documented, implemented and are aligned with 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 to financial transactions has been tested over a defined period and that any required remediation is addressed.

Ongoing Monitoring means that a systematic integrated approach to monitoring is in place, including periodic risk-based assessment and timely remediation.

3.2 Health Canada's assessment scope

In support of the implementation of the PIC, the department has taken measures to assess its system of ICFR starting from its financial statements with a focus on developing frameworks for its key business processes. For this, the department gathered information and mapped out these key processes with the identification and documentation of key risk and control points on the basis of materiality, volume, complexity, geographic dispersion, and susceptibility to losses/frauds, areas subject to audit observations, past history, and external attention.

Further, HC documented and assessed its entity-level controls and Information Technology General Controls (ITGC). Assessment of the ITGC was completed using control standards from the IT Control Objectives for the Sarbanes-Oxley framework (2nd edition), which was adapted for HC.

In 2009-2010, HC commenced the assessment of its operating effectiveness of key controls with the objective to revalidate the documentation of processes and controls with the various process owners and perform targeted testing on selected controls.

In 2010-2011, the Department continued to assess the operating effectiveness of its system of ICFR with the main focus on the following processes and locations:

- Transfer payments - specifically accounts receivable, Payable at Year-end (PAYE) and advances (department wide);
- Travel - Non-insured medical transportation (two regions);
- Service revenues - Sales of goods and services (all in NCR); and,
- Capital assets (department wide).

In addition, HC followed-up on action plans developed to address observations from prior years ICFR assessments including:

- Capital Asset Management;
- Account Receivable Management;
- Vendor Master Data Integrity;

- Independent assurance report for Non-Insured Health Benefit; and,
- Information Technology General Controls.

4. Health Canada's assessment results

4.1 Design effectiveness of key controls

Design effectiveness is not static. Therefore as policies, systems and procedures are amended, the design effectiveness of the key controls is reassessed and modified accordingly. This ensures compliance and that key controls are still appropriately aligned with the risks they aim to mitigate.

In 2010–2011, as noted in section 3.2 above, the focus was on operating effectiveness testing.

4.2 Operating effectiveness of key controls

In 2010-2011, the assessment continued and included testing of ICFR components within a number of main accounts as identified in Section 3.2. The testing results demonstrated that in order to ascertain the effectiveness of the key controls, there is still a need for standardization of processes and documentation in support of the financial transactions. In addition, the results of the assessment identified that HC should continue to strengthen the accounting processes and clarify the roles and responsibilities of program and financial officers with respect to accounts receivable and PAYE particularly for contribution agreements.

In addition to the ICFR operating effectiveness testing, the following initiatives were undertaken to contribute to effective controls:

Capital Assets Inventory

Health Canada contracted a Chartered Accountant firm to conduct a nationwide inventory of its movable Capital Assets and Real Property. A number of observations and adjustments were identified and the necessary corrections were made in the financial system to provide assurance towards fair presentation of the capital assets.

Account Verification

Effective April 1, 2010, HC fully implemented the statistical sampling methodology as part of its Account Verification Procedures. All HC accounting offices conduct full quality assurance for all transactions deemed high risk and minimum quality assurance for low risk Operating and Maintenance (O&M) transactions prior to payment. In addition, accounting offices perform statistical sampling on low risk O&M transactions after payment. On a quarterly basis, an analysis of the quality assurance results is conducted to monitor the effectiveness of the statistical sampling processes and to consider recommendations for changes including modifications to risk profiles and the sharing of best practices.

Audits conducted by the Audit and Accountability Bureau (AAB)

The AAB completed five audits whose scope included some components which assessed controls over financial reporting. The areas examined related to Non-Insured Medical Health Benefit – Medical Transportation; Contracting for Services; Capital Contribution Agreements; Payroll Administration and Financial Reporting Controls. Even though the audit results provided support for further improvement, the overarching conclusion of these audits support the effectiveness and comprehensiveness of the management control frameworks. The results were accepted by management, who have established action plans and have proceeded with their implementation. (<http://www.hc-sc.gc.ca/ahc-asc/pubs/audit-verif/index-eng.php>)

5. Health Canada's action plan

5.1 Progress made during the fiscal year ending March 31, 2011

During 2010-2011, HC continued to make significant progress in assessing and improving its key controls. The following is a summary and status of a number of initiatives undertaken to address observations from prior year ICFR assessments.

Capital Assets Management

A policy on Accounting for Capital Assets is near completion. Over the course of the development of this policy, a number of the proposed enhancements contained therein were implemented. This policy will clarify among other things, the standards for the capitalization and recording of projects and related eligible expenses, and ensures that the proper controls are in place for the future. It will also clarify the roles and responsibilities with respect to the custody of financial records related to the original costs of the assets. It is anticipated that most of the observations that arose from the inventory exercise will be addressed by the implementation of this policy.

Accounts Receivable Management

To clarify the roles and responsibilities and further strengthened the overall stewardship and accountability of its accounts receivable, HC developed and commenced implementation of a policy on Receivables Management and Charging Interest on Overdue Accounts. Once fully implemented, the expected outcome will result in better management of all phases of accounts receivable from the initial identification to the collection as well as timely write-off.

Vendor Master Data Integrity

HC has initiated the drafting of a policy on Vendor Master Records and anticipates its approval and implementation during 2011–2012. The expected result is improved effectiveness and efficiency in the creation and maintenance of vendor records and improved quality and consistency of reporting. A related initiative has been started by the Office of the Comptroller General's Common Enterprise Data Initiative Working Group to develop a TBS Standard on Vendor Record for the Government of Canada. HC is a member of this committee and will ensure that its departmental policy is amended, as appropriate, when the TBS standard becomes effective.

Independent Assurance Report for Non-Insured Health Benefit

In December 2009, the service provider for the Non-Insured Health Benefits Program was changed. Included in the contract requirements is the condition that an independent annual assurance report on the internal controls be provided at the end of each reporting period in accordance with the Canadian Institute of Chartered Accountants (CICA) - Section 5970.

IT general controls:

HC followed-up on the observations resulting from the assessment of its entity-level IT general controls and strengthened the controls related to the IT program changes as well as the back-up and recovery of data.

5.2 Action plan for the next fiscal years

Health Canada (HC) is committed to improving its framework of internal controls over financial reporting to ensure that key controls appropriately mitigate associated risks.

In 2011-2012, HC plans to:

- Continue with the testing of the operating effectiveness of the key controls with particular focus on the following processes: contracting, transfer payments, revenues, and payroll.
- Monitor the implementation of action plans to address assessment results.
- This work will also be used to clarify and communicate the roles and responsibilities of the various business partners towards the implementation of the PIC requirements, thereby ensuring their buy-in and proper documentation management.

In 2012-2013, HC plans to:

- Perform testing of the operating effectiveness of the remaining key financial reporting controls of the main business processes.
- Ensure that action plans are developed and appropriately implemented to enhance internal control framework and mitigate risks.
- Develop methodologies and tools that will assist with the implementation of an ongoing monitoring strategy.
- Re-assess the Information Technology General Controls (ITGC).

HEALTH CANADA

Statement of Financial Position (Unaudited)

As at March 31
(in thousands of dollars)

2011 2010

Assets


Financial assets			
Due from Consolidated Revenue Fund	\$	271,557	\$ 330,142
Accounts receivable and advances (Note 4)		27,836	28,201
Total financial assets		299,393	358,343
Non-financial assets			
Prepaid expenses		19,200	15,000
Tangible capital assets (Note 5)		159,108	157,164
Total non-financial assets		178,308	172,164
Total Assets	\$	477,701	\$ 530,507

Liabilities and Equity of Canada


Liabilities			
Accounts payable and accrued liabilities (Note 6)	\$	306,687	\$ 363,395
Vacation pay and compensatory leave		40,879	42,468
Deferred revenue		1,495	1,585
Employee future benefits (Note 7)		176,675	170,828
Other liabilities (Note 8)		585,537	678,006
		1,111,273	1,256,282
Equity of Canada		(633,572)	(725,775)
Total Liabilities and Equity of Canada	\$	477,701	\$ 530,507

Contingent Liabilities (Note 9)
Contractual Obligations (Note 10)

The accompanying notes are an integral part of the financial statements



Glenda Yeates
 Deputy Minister
 Ottawa, Canada
 Date: Aug. 23, 2011



Jamie Tibbells
 Chief Financial Officer
 Ottawa, Canada
 Date: AUG 22 2011

HEALTH CANADA

Statement of Operations (Unaudited)

For the year ended March 31

(in thousands of dollars)

	2011					2010		
	Planned Results	Accessible and Sustainable Health System Responsive to the Health Needs of Canadians	Access to Safe and Effective Health Products and Food and Information for Healthy Choices	Reduced Health and Environmental Risks from Products and Substances, and Healthy, Sustainable Living and Working Environments	Better Health Outcomes and Reduction of Health Inequalities Between First Nations and Inuit and Other Canadians	Internal Services	Total	Total
Expenses								
Transfer payments	\$ 1,276,791	\$ 262,125	\$ 8,580	\$ 47,578	\$ 1,161,026	\$ (84)	\$ 1,479,225	\$ 2,001,281
Salaries and employee benefits	924,289	46,388	226,112	232,235	243,677	233,906	982,318	986,290
Professional and special services	413,641	6,160	23,076	82,204	341,358	40,511	493,309	472,644
Utilities, materials and supplies	508,879	381	9,952	20,385	436,678	14,175	481,571	472,987
Travel non-insured health patients	181,299	-	-	-	154,014	-	154,014	154,635
Accommodation	62,376	2,766	17,379	18,569	16,248	16,587	71,549	67,241
Travel and relocation	34,948	1,032	4,228	6,627	23,773	3,060	38,720	42,227
Purchased repair and maintenance	25,326	32	1,465	1,873	2,027	28,811	34,208	42,414
Amortization of tangible capital assets	22,338	-	4,446	7,039	2,819	15,636	29,940	25,620
Information	19,287	129	1,113	2,470	1,104	18,261	23,077	16,098
Communications	17,693	31	450	2,799	3,212	11,945	18,437	23,296
Rentals	3,021	132	733	899	1,385	983	4,132	4,365
Other	5,491	(6)	22	291	1,292	900	2,499	(1,024)
Bad debts	-	-	-	-	-	2,472	2,472	(1,174)
Total Expenses	3,495,379	319,170	297,556	422,969	2,388,613	387,163	3,815,471	4,306,900
Revenues								
Sales of goods and services								
Services of a regulatory nature	29,046	-	25,732	4,968	-	251	30,951	28,220
Rights and privileges	18,851	-	17,941	4,500	-	203	22,644	23,281
Services of a non-regulatory nature	30,146	-	262	16,092	5,549	273	22,176	19,834
Lease and use of public property	348	-	-	-	193	30	223	220
Revenues from fines	-	-	-	2,609	-	-	2,609	2,720
Interest	787	-	-	-	-	356	356	190
Other	2,177	664	3,732	7,199	103	104	11,802	10,504
Total Revenues	81,365	664	47,667	35,368	5,845	1,217	90,761	84,969
Net cost of operations	\$ 3,414,024	\$ 318,506	\$ 249,889	\$ 387,601	\$ 2,382,768	\$ 385,946	\$ 3,724,710	\$ 4,221,931

The accompanying notes are an integral part of the financial statements

HEALTH CANADA

Statement of Equity of Canada (Unaudited)

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

2011**2010**

Equity of Canada, beginning of year	\$	(725,775)	\$	(333,340)
Net cost of operations		(3,724,710)		(4,221,931)
Net Cash provided by Government		3,745,490		3,836,554
Change in due from Consolidated Revenue Fund		(58,585)		(132,782)
Services provided without charge by other government departments (Note 11)		130,008		125,724
Equity of Canada, end of year	\$	(633,572)	\$	(725,775)

The accompanying notes are an integral part of the financial statements

HEALTH CANADA

Statement of Cash Flow (Unaudited)

For the year ended March 31

2011

2010

(in thousands of dollars)

Operating activities

Net cost of operations	\$	3,724,710	\$	4,221,931
Non-cash items:				
Amortization of tangible capital assets (Note 5)		(29,940)		(25,620)
Loss on disposal of tangible capital assets		(1,195)		(349)
Services provided without charge by other government departments (Note 11)		(130,008)		(125,724)
Variations in Statement of Financial Position:				
Increase (decrease) in accounts receivable and advances		(365)		5,285
Increase in prepaid expenses		4,200		3,800
Decrease in accounts payable and accrued liabilities		56,708		132,176
(Increase) decrease in vacation pay and compensatory leave		1,589		(104)
Decrease in deferred revenue		90		965
(Increase) decrease in employee future benefits		(5,847)		12,834
(Increase) decrease in other liabilities		92,469		(432,403)
Cash used in operating activities		3,712,411		3,792,791

Capital investing activities

Acquisitions of tangible capital assets (Note 5)		33,960		45,601
Adjustments to capital assets with no monetary impact		(761)		(1,649)
Proceeds from disposal of tangible capital assets		(120)		(189)
Cash used in investing activities		33,079		43,763

Net cash provided by Government of Canada	\$	3,745,490	\$	3,836,554
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The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements (Unaudited)

For the year ended March 31

1. Authority and objectives

The Department of Health was established effective July 12, 1996 under the *Department of Health Act* to participate in the promotion and preservation of the health of the people of Canada. It is named in Schedule I of the *Financial Administration Act* and reports through the Minister of Health. Priorities and reporting are aligned under the following strategic outcomes and related program activities:

Strategic Outcome 1: Accessible and Sustainable Health System Responsive to the Health Needs of Canadians

Maintaining the accessibility and sustainability of Canada's health system is a shared responsibility, requiring Health Canada to work closely with provincial and territorial governments, as well as health organizations and other stakeholder groups. With Health Canada playing a significant role, the Department continually examines new and innovative approaches and responses to the health priorities and needs of Canadians.

Serving as a partner, an enabler, an innovator, a knowledge broker and a proponent of transparency and accountability, Health Canada plays a role in supporting the sustainability of Canada's health system. To Canadians, sustainability means the availability, maintenance and advancement of key attributes of Canada's publicly funded health system such as accessibility, efficiency and effectiveness. In the face of perpetually shifting and growing health system demands, the Department develops policies in support of a sustainable health system for Canadians.

Program Activities:

- Canadian Health System
- Canadian Assisted Human Reproduction
- International Health Affairs

Strategic Outcome 2: Access to Safe and Effective Health Products and Food and Information for Healthy Choices

Under this strategic outcome, Health Canada is committed to promoting and protecting the health and safety of Canadians by working towards reducing health risks from health products and food and by providing information so Canadians can make informed decisions and healthy choices.

As the federal authority responsible for the regulation of health products and food, Health Canada evaluates and monitors the safety, quality and efficacy of health products as well as the safety and nutritional quality of food. The Department also promotes the health and well-being of Canadians through a broad range of activities related to health products and food, including developing nutrition policies and standards such as Canada's Food Guide and information to the public in newsletters such as *It's Your Health*.

Program Activities:

- Health Products
- Food and Nutrition

Strategic Outcome 3: Reduced Health and Environmental Risks from Products and Substances, and Healthy, Sustainable Living and Working Environments

Health Canada is responsible for assessing and acting on many elements of day-to-day living that have impacts on the health of Canadians. These include drinking water safety, air quality, radiation exposure, substance use and abuse (including alcohol), consumer product safety, tobacco and second-hand smoke, workplace health, and chemicals in the workplace and in the environment. The Department is also engaged in chemical and nuclear emergency preparedness, inspection of food and potable water for the travelling public and health contingency planning for visiting dignitaries.

Much of this work is governed by legislation such as the *Controlled Drugs and Substances Act*, the *Hazardous Products Act*, the *Tobacco Act*, the *Food and Drugs Act*, the *Radiation Emitting Devices Act*, the *Quarantine Act*, the *Pest Control Products Act* and others.

Program Activities:

- Sustainable Environmental Health
- Consumer Products
- Workplace Health
- Substance Use and Abuse
- Pesticide Regulation

1. Authority and objectives (continued)

Strategic Outcome 4: Better Health Outcomes and Reduction of Health Inequalities Between First Nations and Inuit and Other Canadians

Health Canada delivers or funds a range of health programs and services to First Nations and Inuit. A range of primary care services are provided in approximately 200 First Nations communities, largely in rural or remote areas where access to provincial health care services is limited. In addition, home and community care services are provided in approximately 600 First Nations communities. Health Canada supports a range of community-based health programs, focusing on children and youth, mental health and addictions, and chronic disease and injury prevention. The Department also delivers a range of public health programs with a focus on communicable disease control, including tuberculosis, HIV/AIDS and vaccine-preventable diseases, environmental public health such as conducting public health inspections and monitoring drinking water quality, and research. The Non-Insured Health Benefits Program provides over 800,000 eligible First Nations and Inuit with a limited range of medically necessary health-related goods and services not provided through private insurance plans, provincial/territorial health or social programs or other publicly funded programs.

Program Activity:

-First Nations and Inuit Health Programming and Services

Program Activity: Internal Services

Health Canada has a range of internal services. Some, in areas such as finance, administration, real property, security, human resources, information management and information technology, provide the basic operational services that enable the Department to function while ensuring compliance to new and existing central agency policies. Other internal services in Health Canada address departmental and Health Portfolio needs such as general communications and policy activities, as well as managing relations with Parliamentarians, the Cabinet system and other government departments and levels of government. An additional set of internal service roles centre on critical departmental and government-wide responsibilities, such as ensuring the best value for Canadians through planning, accountability and tracking performance and results.

Notes to the Financial Statements (Unaudited)

For the year ended March 31

2. Summary of Significant Accounting Policies

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

Significant accounting policies are as follows:

(a) Parliamentary authorities

The Department of Health is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and 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 are the amounts reported in the future-oriented financial statements included in the 2010-11 Report on Plans and Priorities.

(b) Net Cash Provided by Government

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

Amounts due from the CRF are the results 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 the Department is entitled to draw from the CRF without further appropriations to discharge its liabilities.

(d) Revenues:

- ✓ Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- ✓ Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- ✓ Funds that have been received are recorded as deferred revenue, provided the department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- ✓ Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

2. Summary of Significant Accounting Policies (continued)

(e) Expenses

Expenses are recorded on the accrual basis:

- ✓ Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements;
- ✓ Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- ✓ Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- ✓ Services provided without charge by other government departments for accommodation, employer contribution to health and dental insurance plans, legal services and workers' compensation are recorded as operating expenses at their estimated cost.

(f) Employee future benefits

- i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the Plan.
- ii) Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(g) Accounts receivable

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

(h) Contingent liabilities

Contingent liabilities are potential liabilities which 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 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.

(i) Environmental liabilities

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

Notes to the Financial Statements (Unaudited)

For the year ended March 31

2. Summary of Significant Accounting Policies (continued)

(j) 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. Health Canada does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

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

<u>Asset class</u>	<u>Sub-asset class</u>	<u>Amortization Period</u>
Buildings	Buildings	25 years
Works and infrastructure	Works and infrastructure	25 years
Leasehold improvements	Leasehold improvements	Lease term, max. 40 years
Machinery and equipment	Machinery and equipment	8-12 years
	Computer equipment	3-5 years
	Computer software	3 years
	In-house developed software	5 years
	Other equipment	5-12 years
Vehicles	Motor vehicles	4-7 years
	Other vehicles	10 years
Assets under construction	Buildings in progress of construction	Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.
	Engineering works in progress of construction	
	Work in progress for software	
	Other construction or work in progress	

(k) Prepaid expenses

Prepaid expenses include prepayments of transfer payments. Prepaid transfer payments consist of contributions advanced to recipients as of March 31 for which it is known that the costs will be incurred by the recipient in the subsequent fiscal year and the amount can be readily determined based on available information.

(l) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits, the allowance for doubtful accounts and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the year that they become known.

Notes to the Financial Statements (Unaudited)

For the year ended March 31

3. Parliamentary authorities

Health Canada receives most of its funding through annual Parliamentary authorities. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used:

(in thousands of dollars)	2011		2010	
Net cost of operations	\$	3,724,710	\$	4,221,931
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>				
Amortization		(29,940)		(25,620)
Loss on disposal of tangible capital assets		(1,195)		(349)
Services provided without charge by other government departments		(130,008)		(125,724)
Decrease (increase) in vacation pay and compensatory leave		1,589		(104)
(Increase) decrease in employee future benefits		(5,847)		12,834
Refund/adjustment of previous year's expenditures		51,145		29,580
Revenue not available for spending		14,525		15,546
Bad debts		(2,472)		1,174
Changes in accrued assets for transfer payments		4,266		6,899
Other changes in liabilities		91,803		(432,934)
		3,718,576		3,703,233
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>				
Acquisitions of tangible capital assets		33,960		45,601
Proceeds from disposal of Crown assets		42		61
Net change to accountable advances		(3)		2
Current year authorities used	\$	3,752,575	\$	3,748,897

(b) Authorities provided and used:

(in thousands of dollars)	2011		2010	
Authorities Provided				
Vote 1 - Operating expenditures	\$	2,050,284	\$	2,016,102
Vote 5 - Capital expenditures		40,081		53,483
Vote 10 - Grants and contributions		1,542,740		1,528,218
Statutory amounts		226,529		215,512
		3,859,634		3,813,315
Less:				
Authorities available for future years		(163)		(489)
Lapsed: operating		(106,896)		(63,929)
Current year authorities used	\$	3,752,575	\$	3,748,897

Notes to the Financial Statements (Unaudited)

For the year ended March 31

4. Accounts receivable and advances

Health Canada records receivables from three main sources. As of March 31, amounts due under each of these categories are as follows:

(in thousands of dollars)	2011	2010
Receivables from external parties	\$ 33,676	\$ 34,059
Receivables from other government departments	8,696	6,772
Employee advances	99	101
Gross receivables	42,471	40,932
Less: Allowance for doubtful accounts on external receivables	(14,635)	(12,731)
Net accounts receivable and advances	\$ 27,836	\$ 28,201

5. Tangible capital assets

Capital assets (in thousands of dollars)	Opening Balance	Acquisitions	Disposals/ write-downs	Transfers and adjustments	Closing Balance
Land	1,177	0	0	0	1,177
Buildings	131,325	983	(643)	(187)	131,478
Works and infrastructure	1,780	143	(70)	(108)	1,745
Leasehold improvements	20,374	1,341	(291)	5,051	26,475
Machinery and equipment	179,905	21,426	(26,661)	33,724	208,394
Vehicles	18,195	2,185	(1,316)	0	19,064
Assets under construction	43,867	7,882	0	(39,241)	12,508
Total	\$ 396,623	\$ 33,960	\$ (28,981)	\$ (761)	\$ 400,841

Accumulated amortization (in thousands of dollars)	Opening Balance	Current year amortization	Disposals/ write-downs	Transfers and adjustments	Closing Balance
Buildings	95,820	4,794	(234)	0	100,380
Works and infrastructure	39	136	(70)	0	105
Leasehold improvements	19,008	904	(291)	0	19,621
Machinery and equipment	113,212	22,128	(25,771)	0	109,569
Vehicles	11,380	1,978	(1,300)	0	12,058
Total	\$ 239,459	\$ 29,940	\$ (27,666)	\$ 0	\$ 241,733

Tangible capital assets net book value (in thousands of dollars)	Net Book Value 2010	Net change Acquisitions and Amortization	Net change Disposals/ write-downs	Net Change Transfers and adjustments	Net Book Value 2011
Land	1,177	0	0	0	1,177
Buildings	35,505	(3,811)	(409)	(187)	31,098
Works and infrastructure	1,741	7	0	(108)	1,640
Leasehold improvements	1,366	437	0	5,051	6,854
Machinery and equipment	66,693	(702)	(890)	33,724	98,825
Vehicles	6,815	207	(16)	0	7,006
Asset under construction	43,867	7,882	0	(39,241)	12,508
Total	\$ 157,164	\$ 4,020	\$ (1,315)	\$ (761)	\$ 159,108

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

Amortization expense for the year ended March 31, 2011 is \$29,940 (2010 - \$25,620).

Notes to the Financial Statements (Unaudited)

For the year ended March 31

6. Accounts payable and accrued liabilities

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

(in thousands of dollars)	2011		2010	
Accounts payables to external parties	\$	143,236	\$	146,774
Accounts payables to other government departments		19,028		39,628
		162,264		186,402
Accrued liabilities		144,423		176,993
Total accounts payable and accrued liabilities	\$	306,687	\$	363,395

7. Employee future benefits

(a) Pension benefits

The Department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 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 Plans benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The current and previous year expenses, which represent approximately 1.9 times (1.9 in 2009-10) the contributions by employees, amount to:

(in thousands of dollars)	2011		2010	
Expense for the year	\$	93,820	\$	100,913

The Department'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

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

(in thousands of dollars)	2011		2010	
Accrued benefit obligation, beginning of year	\$	170,828	\$	183,662
Expense for the year		15,579		(3,980)
Benefits paid during the year		(9,732)		(8,854)
Accrued benefit obligation, end of year	\$	176,675	\$	170,828

Notes to the Financial Statements (Unaudited)

For the year ended March 31

8. Other liabilities

(in thousands of dollars)	2011	2010
Canada Health Infoway	\$ 578,537	\$ 671,039
Other	6,998	6,967
Total other liabilities	\$ 585,535	\$ 678,006

Budget 2007 announced an allocation of \$400 million to Canada Health Infoway Inc. Of this authority \$263 million has been disbursed to date, \$34 million in 2010-11 (\$67.2 million in 2009-10). Budget 2009 announced an additional allocation of \$500 million to Canada Health Infoway Inc. of this authority, \$58 million has been disbursed in 2010-11 (\$0 in 2009-10).

The remaining other liabilities include amounts for Special Purpose Accounts: Collaborative research projects \$3.0 million (\$2.5 million in 2009-10); miscellaneous federal/provincial projects \$1.2 million (\$1.3 million in 2009-10); and World Health Organization \$0.1 million (\$0.1 million for 2009-10).

9. Contingent liabilities

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

a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the department is obligated or likely to be obligated to incur such costs. Health Canada has identified sites where such action is possible and for which a liability has been recorded.

(in thousands of dollars)	2011	2010
Approximate number of sites for which a liability has been recorded	1	1
Liability recorded for contaminated sites	\$ 225	\$ 90

Health Canada'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 in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

In the normal course of its operations, Health Canada becomes involved in various legal actions. There are a number of claims for which a reasonable estimate of the potential liability cannot presently be determined. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail 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.

10. Contractual obligations

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

(in thousands of dollars)	Transfer payments	Non-Insured Health Benefits	Total
2011-12	\$ 327,890	\$ 17,000	\$ 344,890
2012-13	135,143	18,000	153,143
2013-14	96,000	19,000	115,000
2014-15	75,000	14,000	89,000
2015-16 and thereafter	125,000	0	125,000
Total	\$ 759,033	\$ 68,000	\$ 827,033

Notes to the Financial Statements (Unaudited)

For the year ended March 31

11. Related party transactions

The Department is related as a result of common ownership to all Government of Canada departments, agencies, and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, the Department received services which were obtained without charge from other government departments as presented in part (a).

(a) Common Services provided without charge by other government departments:

During the year the Department received services without charge from certain common service organizations, related to accommodation, legal services, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services provided without charge have been recorded in the Department's Statement of Operations as follows:

<i>(in thousands of dollars)</i>	2011	2010
Employer's contribution to the health and dental insurance plans	\$ 66,973	\$ 67,338
Accommodation	55,788	52,355
Legal Services	6,629	5,164
Worker's compensation	618	867
Total	\$ 130,008	\$ 125,724

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

(b) Other transactions with related parties:

<i>(in thousands of dollars)</i>	2011	2010
Accounts receivable from other government departments and agencies	\$ 8,696	\$ 6,772
Accounts payable to other government departments and agencies	19,028	39,628
Expenses - Other government departments and agencies	99,945	101,351
Revenues - Other government departments and agencies	8,516	8,840

12. Comparative information

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