



Public Safety Sécurité publique
Canada Canada

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Financial Statements for the Year Ended

March 31, 2012

Canada

Statement of Management Responsibility (unaudited)

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 the Public Safety and Emergency Preparedness Canada (PSEPC). 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 the department's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada and included in PSEPC's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal controls 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; and through communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Department 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 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 of Public Safety and Emergency Preparedness Canada.

The financial statements of PSEPC have not been audited.

**Original signed by A/DM
on August 9, 2012**

Graham Flack
A/Deputy Minister
Ottawa, Canada

Date

**Original signed by CFO
on August 9, 2012**

Gary Robertson
Assistant Deputy Minister,
Corporate Management Branch
Chief Financial Officer
Ottawa, Canada

Date

Public Safety and Emergency Preparedness Canada

Statement of Financial Position (unaudited)

As at March 31

(in thousands of dollars)

	2012	2011
Liabilities		
Accounts payable and accrued liabilities (note 4)	\$ 210,834	\$ 348,344
Vacation pay and compensatory leave	3,732	3,506
Employee future benefits (note 5)	9,457	18,806
Disaster Financial Assistance Arrangements (DFAA) (note 6)	1,299,851	545,918
Total net Liabilities	\$1, 523,874	\$ 916,574

Financial assets

Due from Consolidated Revenue Fund	\$ 172,158	\$ 278,394
Accounts receivable and advances (note 7)	1,071	3,025
Total net financial assets	\$ 173,229	\$ 281,419

Departmental Net Debt	\$ 1,350,645	\$ 635,155
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Non-Financial assets

Tangible capital assets (note 8)	15,160	15,706
Total non-financial assets	\$ 15,160	\$ 15,706

Departmental net financial position	(\$1,335,485)	(\$ 619,449)
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Contractual obligations (note 9)

Contingent liabilities (note 10)

The accompanying notes form an integral part of these financial statements

**Original signed by A/DM
on August 9, 2012**

Graham Flack
A/Deputy Minister
Ottawa, Canada

**Original signed by CFO
on August 9, 2012**

Gary Robertson
Assistant Deputy Minister
Corporate Management Branch
Chief Financial Officer
Ottawa, Canada

Date

Date

Public Safety and Emergency Preparedness Canada

Statements of Operations and Departmental Net Financial Position (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2012 Planned Results	2012	2011 Restated (Note 15)
Expenses			
Emergency Management	\$ 161,327	\$ 890,320	\$ 268,738
Countering Crime	192,043	172,226	310,572
Internal Services	55,609	70,767	67,019
National Security	16,143	19,561	19,832
Border Strategies	2,574	3,424	2,321
Total expenses	\$ 427,696	\$ 1,156,298	\$ 668,482

Revenues

Respendable revenue		\$ 1,596	\$ -
Miscellaneous revenues	85	89	110
Revenues earned on behalf of government	(85)	(89)	(110)
Total revenues	0	\$ 1,596	\$ 0

Net Cost from continuing operations	\$ 427,696	\$ 1,154,702	\$ 668,482
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Transferred operations (note 13)

Expenses	3,235	3,235	6,905
Net cost of transferred operations	3,235	3,235	6,905

Net Cost of Operations before government funding and transfers	\$ 430,931	\$ 1,157,937	\$ 675,387
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Government Funding and Transfers

Net cash provided by Government		528,825	451,792
Change in due from the Consolidated Revenue Fund		(106,236)	42,798
Services provided without charge by other government departments (note 11)		20,238	17,781
Transfer of assets and liabilities to Shared Services Canada (note 13)		(917)	-
Transfer of assets to other government department (note 8)		(9)	-
Net Cost of Operations after government funding and transfers		\$ 716,036	\$ 163,016

Departmental Net Financial Position - Beginning of Year		(\$ 619,449)	(\$ 456,433)
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Departmental Net Financial Position - End of Year		(\$1,335,485)	(\$ 619,449)
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Segmented information (note 14)

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

Public Safety and Emergency Preparedness Canada**Statement of Change in Departmental Net Debt (unaudited)**

For the Year Ended March 31

(in thousands of dollars)

	2012	2011
Net Cost of Operations after government funding and transfers	\$ 716,036	\$ 163,016
Change Due to Tangible Capital Assets		
Acquisition of tangible capital assets	3,293	2,514
Amortization of tangible capital assets	(1,764)	(1,696)
Proceeds from disposal of tangible capital assets	-	(6)
Transfer to other Government Departments (note 8 & 13)	(2,075)	
Total Change Due to Tangible Capital Assets	\$ (546)	\$ 812
Net Increase in Departmental Net Debt due to operations	\$ 715,490	163,828
Departmental Net Debt Beginning of Year	\$ 635,155	\$ 471,327
Departmental Net Debt End of Year	\$ 1,350,645	\$ 635,155

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

Public Safety and Emergency Preparedness Canada

Statement of Cash Flows (unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2012	2011 Restated (Note 15)
Operating activities		
Net Cost of Operations before government funding and transfers	\$ 1,157,937	\$ 675,387
Non-cash items:		
Amortization of tangible capital assets (note 8)	(1,764)	(1,696)
Services provided without charge by other government departments (note 11)	(20,238)	(17,781)
Variations in Statement of Financial Position:		
Increase (decrease) in account receivable	(1 954)	1 828
Decrease (increase) in accounts payable and accrued liabilities	137,510	(72,644)
Decrease (increase) in vacation pay and compensatory leave	(226)	811
Decrease (increase) in employee future benefits	9,349	(1,803)
Decrease (increase) in Disaster Financial Assistance Arrangements program	(753,933)	(134,818)
Transfer of liabilities to other government departments (note 13)	(1,149)	0
Cash used by operating activities	\$ 525,532	\$ 449,284
Capital investing activities		
Acquisitions of tangible capital assets (note 8)	3,293	2,514
Proceeds from Disposal of tangible capital assets (note 8)		(6)
Cash used in capital investing activities	3,293	2,508
Net cash provided by Government of Canada	\$ 528,825	\$ 451,792

The accompanying notes form an integral part of these financial statements

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

1. Authority and objectives

The Department of Public Safety and Emergency Preparedness Canada (PSEPC) was created in 2003 to ensure coordination across all federal departments and agencies responsible for national security and the safety of Canadians. The Department operates under the Department of Public Safety and Emergency Preparedness Act (2005, c.10) that received Royal assent on March 23, 2005.

PSEPC contributes to the public safety of Canadians through the promotion and maintenance of a just, peaceful and safe society; it has five main core activities:

- ✓ Emergency Management: Addresses all-hazards through the development of an integrated emergency management system, legislation and national strategies, training and standards to protect Canada and Canadians;
- ✓ Countering Crime: Collaborates with regions and communities to build crime prevention programs that are specific and appropriate to them. It provides communities with tools, knowledge and support to implement prevention programs;
- ✓ Internal Services: Supports the work of all other programs activities and provides key corporate services;
- ✓ National Security: Develops and coordinates policy to define and advance Canada's national security objectives; and
- ✓ Border Strategies: Provides federal policy leadership and coordination on a variety of border issues to ensure that security objectives are achieved in a manner that facilitates the flow of legitimate trade and travel, and contributes to the effective management of the Canada-US border agenda.

2. Significant accounting policies

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

Significant accounting policies are as follows:

(a) Parliamentary authorities

PSEPC 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 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 *2011-12 Report on Plans and Priorities*. The future-oriented financial statements for 2011-2012 have been restated to reflect the revenue net of non-responsible amounts. This restatement resulted in an \$85,000 increase in net costs of operations before government funding and transfers. In addition, the future-oriented financial statements have also been reclassified to conform to the current year presentation.

(b) 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.

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

2. Significant accounting policies (continued)

(c) Amounts due from/to the CRF

Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

(d) Revenues

Revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

Revenues that are non-respensible are not available to discharge the Department's liabilities. While the Deputy Head is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respensible revenues. As a result, non-respensible revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the PSEPC'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. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.

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

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

(f) Employee future benefits

(i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer 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. 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.

(ii) Severance benefits: Employees entitled to severance benefits under labor 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) Receivables

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

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

2. Significant accounting policies (continued)

(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 note 10 to the financial statements.

(i) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

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

Asset Class	Amortization Period
Computer hardware	4 years
Computer software	3-5 years
Vehicles	3 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of improvement
Other Equipment including Furniture	5 years

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.

(j) 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, the liability for the Disaster Financial Assistance Arrangements Program, the employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

3. Parliamentary authorities

PSEPC 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, PSEPC 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 (Note 15)
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	\$ 1,157,937	\$ 675,387
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets (note 8)	(1,764)	(1,696)
Services provided without charge by other government departments (note 11)	(20,238)	(17,781)
Decrease (increase) in vacation pay and compensatory leave net of SSC transfer (note 13)	(358)	811
Decrease (increase) in employee future benefits net of SSC transfer (note 5)	8,524	(1,803)
Bad debt expenses	(1,901)	0
Refund of prior year expenditures	2,294	3,276
Decrease (increase) in accruals for Disaster Financial Assistance (note 6)	(753,933)	(134,818)
Adjustments to previous years' payables at year-end	12,358	6,712
	(755,018)	(145,299)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets (note 8)	3,293	2,514
Proceeds from disposal of tangible capital Assets	0	(6)
	3,293	2,508
Current year authorities used	\$ 406,212	\$ 532,596

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

3. Parliamentary authorities (continued)

(b) *Authorities provided and used:*

	2012	2011
	(in thousands of dollars)	
<i>Operating expenditures - Vote 1</i>	\$ 152,159	\$ 150,251
<i>Grants & Contributions - Vote 5</i>	246,044	520,028
Salary and motor car allowance	78	78
Contributions to employee benefits plan	15,676	15,188
	413,957	685,545
Less:		
Lapsed : Operating and transfer payments	(12,392)	(152,949)
Subtotal	401,565	532,596
Obligation for Termination Benefits	4,647	0
Current year authorities used	\$ 406,212	\$ 532,596

4. Accounts payable and accrued liabilities

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

	2012	2011
	(in thousands of dollars)	
Accounts payable to other government departments and agencies	\$ 4,162	\$ 4,970
Accounts payable to external parties	201,173	342,770
Total accounts payable	205,335	347,740
Accrued liabilities	5,499	604
Total accounts payable and accrued liabilities	\$ 210,834	\$348,344

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three years starting in 2012-2013. As a result, the Department has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$4,647,000 as part of accrued liabilities to reflect the estimated workforce adjustment costs.

5. Employee future benefits

(a) *Pension benefits*

PSEPC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation. Both the employees and the Department contribute to the cost of the Plan. The 2011-12 expense amounts to \$11,303,865 (\$10,756,494 in 2010-11), which represents approximately 1.8 times the contributions by employees (1.9 in 2010-11).

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.

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

5. Employee future benefits (continued)

(b) Severance benefits

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

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.

	2012	2011
	(in thousands of dollars)	
Accrued benefit obligation - Beginning of year	\$ 18,806	\$17,003
Transferred to other government department, effective November 15, 2011 (note 13)	(825)	0
Subtotal	17,981	17,003
Expense for the year	1,786	2,854
Benefits paid during the year	(10,310)	(1,051)
Accrued benefit obligation - End of year	\$ 9,457	\$ 18,806

6. Disaster Financial Assistance Arrangements (DFAA)

In the event of a natural disaster in Canada, the federal government provides financial assistance to provincial and territorial governments through the Disaster Financial Assistance Arrangements program to help meet the basic costs of response and recovery when such expenditures exceed what an individual province or territory could reasonably be expected to bear on its own. The current outstanding liabilities of \$1,299M is the estimated cost to PSEPC of 52 natural disaster events for which the Federal Government has agreed to share the costs and final payments have not yet been made.

	2012	2011
	(in thousands of dollars)	
Opening balance	\$ 545,918	\$411,100
Disbursements	(99,970)	(88,716)
Accrued expenses for the year	853,903	223,534
Closing balance	\$ 1,299,851	\$545,918

7. Accounts receivable and advances

The following table presents details of accounts receivable and advances:

	2012	2011
	(in thousands of dollars)	
Receivables – Other government departments and agencies	\$ 892	\$1,034
Receivables – External parties	2,053	1,971
Employee advances	27	20
Subtotal	\$ 2,972	\$ 3,025
Allowance for doubtful accounts on receivables from external parties	(1,901)	0
Net accounts receivable	\$ 1,071	\$ 3,025

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

(in thousands of dollars)

8. Tangible capital assets

Capital asset class	Cost			Accumulated Amortization			Net book value			
	Opening balance	Acquisitions	Adjustments (1)	Closing balance	Opening balance	Amortizations	Adjustments (1)	Closing balance	2012	2011
Computer hardware	6,684	973	(3,025)	4,632	4,204	609	(1,093)	3,720	912	2,480
Computer software	497	0	(283)	214	275	49	(149)	175	39	222
Other equipment including furniture	692	650	0	1,342	38	145	0	183	1,159	654
Vehicles	109	73	(11)	171	75	22	(2)	95	76	34
Leasehold improvements	18,642	1,253	11	19,906	6,337	939	0	7,276	12,630	12,305
Assets under construction	11	344	(11)	344	0	0	0	0	344	11
Total	\$ 26,635	\$ 3,293	\$ (3,319)	\$ 26,609	\$ 10,929	\$ 1,764	\$ (1,244)	\$ 11,449	\$ 15,160	\$ 15,706

(1) Adjustments include assets under construction of \$11,000 that were transferred to other categories upon completion of the assets.

Effective November 15, 2011, the Department transferred computer hardware and software with a net book value of \$2,066,000 to SSC (refer to Note 13 for further detail on the transfers). The Department also transferred a vehicle with a net book value of \$9,000 to another government department. The transfers are included in the Adjustments columns.

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

9. Contractual Obligations

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

	Fiscal Year					Total
	2013	2014	2015	2016	2017 and thereafter	
	(in thousands of dollars)					
Transfer payments	\$104,195	28,912	15,268	3,413	375	\$ 152,163

10. Contingent liabilities - claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The Department has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$1,822,110 (\$250,000 in 2010-2011) at March 31, 2012.

Please note that during 2011, Public Safety Canada has reviewed the methodology to estimate the value of the claims and litigation from potential liability for all named parties to the only portion attributable to the department. Therefore 2010-2011 estimated claims and litigation were restated from \$451,344,220 to \$250,000.

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. In addition, the Department has agreements with Correctional Services Canada and with Royal Canadian Mounted Police related to the provision of finance and human resources system services. During the year, the Department 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 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 and Departmental Net Financial Position as follows:

	2012	2011
	(in thousands of dollars)	
Accommodation	\$ 10,088	\$ 9,596
Employer's contribution to the health and dental insurance plans	8,385	6,719
Legal services	1,758	1,459
Workers' Compensation	7	7
Total	\$ 20,238	\$ 17,781

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 services organization so that one department performs services for all other departments and agencies without charge. The costs of these services, such as 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 the Department's Statement of Operations and Departmental Net Financial Position.

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

11. Related party transactions (continued)

(b) Other transactions with related parties

	2012	2011
	(in thousands of dollars)	
Accounts receivable – Other government departments and agencies	\$ 892	\$ 1,034
Accounts payable – Other government departments and agencies	4,162	4,970
Expenses - Other government departments and agencies	11,145	9,690
Revenues – Other government departments and agencies	1,596	0

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

12. Transfer payments

The following table presents details of transfer payments as follows:

	2012	2011
	(in thousands of dollars)	
Payments to Territorial Governments for Operating Expenditures	\$ 13,044	\$ 153,779
Payments to other levels of government	859,934	231,555
Payments to Native peoples	80,798	84,141
Payments to Non-Profit Organizations	31,502	33,523
Total	\$ 985,278	\$ 502,998

13. Transfers from/to other government departments

Effective November 15, 2011, the Department transferred its information technology activities to Shared Services Canada (SSC) in accordance with PC 2011-12 97, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, the Department transferred the following assets and liabilities related to PSEPC to SSC on November 15, 2011:

Assets:	(in thousands of dollars)
Tangible capital assets (net book value) (note 8)	\$ 2,066
Total assets transferred	\$ 2,066
Liabilities	
Allowance for Vacation pay and compensatory leave	132
Employee future benefits liabilities (note 5)	763
Accrued Salaries and Wages	17
Payables at year-end	237
Total liabilities transferred	\$ 1,149
Adjustment to the departmental net financial position	\$ 917

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. During the transition period, the Department continued to administer the transferred activities on behalf of Shared Services Canada. The administered expenses amounted to \$5,358,811 for the year. These expenses are not recorded in these financial statements.

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012
(in thousands of dollars)

14. Segmented information

Presentation by segment is based on the Department'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 revenue generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

	2012					2011
	Emergency Management	Countering Crime	Internal Services	National Security	Border Strategies	Total
Expenses						Total Restated (note 15)
Transfer payments	\$ 853,149	\$ 132,031	\$ 0	\$ 98	\$ 0	\$ 985,278
Operating expenses						
Salaries and employee benefits	28,035	28,300	46,713	14,586	2,753	120,387
Professional and special services	5,030	5,619	9,402	1,636	232	21,919
Accommodation	2,416	2,391	6,969	1,257	228	13,261
Travel and relocation	754	1,476	622	704	183	3,739
Equipment	355	46	0	519	11	931
Communication	29	28	0	59	1	117
Equipment rentals	82	88	662	600	10	1,442
Amortization	173	1	1,579	11	0	1,764
Information	119	241	2,236	49	0	2,645
Repairs	61	0	1,868	10	0	1,939
Utilities, material and supplies	117	111	674	32	6	940
Bad debt expense	0	1,894	7	0	0	1,901
Miscellaneous	0	0	35	0	0	35
Total Operating expenses	37,171	40,195	70,767	19,463	3,424	171,020
Total Expenses	890,320	172,226	70,767	19,561	3,424	1,156,298
Revenues						
Responsible Revenue			1,596			1,596
Miscellaneous Revenues	21	21	35	11	1	89
Revenue earned on behalf of Government	(21)	(21)	(35)	(11)	(1)	(89)
Total Revenues	0	0	1,596	0	0	1,596
Net Cost from continuing operations	\$ 890,320	\$ 172,226	\$ 69,171	\$ 19,561	\$ 3,424	\$ 1,154,702
						\$ 668,482

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

15. Accounting changes

During 2011, amendments were made to *Treasury Board Accounting Standard 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 Department's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

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

Revenues 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 cost of operations after government funding and transfers by \$89,000 for 2012 (\$110,000 for 2011).

Government funding and transfers, as well as 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, the Department 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 \$441,812,000 for 2012 (\$512,261,000 for 2011).

	2011		2011
	(in thousands of dollars)		
	As previously stated	Effect of change	Restated
Statement of Operations and Departmental Net Financial Position			
Revenues	\$ 110	\$ (110)	\$ 0
Government funding and transfers			
Net cash provided by Government	0	451,792	451,792
Change in due from Consolidated Revenue Fund	0	42,798	42,798
Services provided without charge by other government departments	0	17,781	17,781

Public Safety and Emergency Preparedness Canada

Notes to the Financial Statements (unaudited)

For the Year Ended March 31, 2012

16. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation. Also, Public Safety Canada recently revised its Program Activity Architecture (PAA) for 2011-12. The revisions do not represent a significant departure from the previous PAA, but better reflect the nature of its business and facilitate departmental reporting requirements.

The Department's streamlined PAA regroups the previous eight program activities into five:

- Emergency Management – includes elements of the former Interoperability program activity;
- Countering Crime – Incorporates the former Law Enforcement, Corrections, and Crime Prevention program activities;
- Internal Services – no change;
- National Security: includes the Critical Infrastructure and Cyber Security programs, both formerly under the Emergency Management program activity;
- Border Strategies: formerly named Border Management.

This crosswalk illustrates the redistribution of the 2010-11 net cost from continuing operations made at the program activity level between the former and new PAAs.

PAA Crosswalk (\$000s)

	National Security	Border Strategies	Countering Crime	Emergency Management	Internal Services	Total
National Security	9,210					9,210
Emergency Management	10,622			267,690		278,312
Law Enforcement			251,317			251,317
Corrections			9,127			9,127
Crime Prevention			50,128			50,128
Border Management		2,321				2,321
Interoperability				1,048		1,048
Internal Services					67,019	67,019
Total Expenses	\$ 19,832	\$ 2,321	\$ 310,572	\$ 268,738	\$ 67,019	\$ 668,482

Former PAA

Annex to the Statement of Management Responsibility

Note to the Reader

With the new Treasury Board *Policy on Internal Control*, effective April 1st, 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 an annual assessment of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their Statement of Management Responsibility a summary of their assessment results and 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 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 systems of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

Contents

Annex to the Statement of Management Responsibility.....	1
Note to the Reader	1
Contents	2
1.0 Introduction.....	3
1.1 Authority, Mandate and Program Activities.....	3
1.2 Financial Highlights.....	3
1.3 Service Arrangements Relevant to Financial Statements	6
1.3.1 Arrangements Where Public Safety Receives Services.....	6
1.3.2 Arrangements Where Public Safety Provides Services	7
1.4 Material Changes Impacting ICFR in Fiscal-Year 2011-12	7
2.0 Public Safety’s Control Environment Relevant to ICRF	10
2.1 Key Positions, Roles and Responsibilities.....	10
2.2 Key Measures Taken By Public Safety	12
3.0 Assessment of Public Safety’s System of ICFR.....	14
3.1 Assessment Approach.....	14
3.2 Scope of Public Safety’s Assessment as of March 31 st , 2012	14
4.0 Departmental Assessment Results as of March 31 st , 2012	16
4.1 Design Effectiveness of Key Controls.....	16
4.2 Operating Effectiveness of Key Controls	17
5.0 Public Safety’s Action Plan	18
5.1 Progress Made During the Fiscal Year Ending March 31, 2012	18
5.2 Action Plan – Future Years.....	20

1.0 Introduction

This document is an annex to the Public Safety *Statement of Management Responsibility Including Internal Control over Financial Reporting* for the fiscal year 2011-12. As required by the Treasury Board *Policy on Internal Control*, effective April 1st, 2009, this document provides summary information on the measures taken by Public Safety to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by Public Safety as at March 31st, 2012, including progress, results and related action plans, along with some financial highlights pertinent to understanding the control environment unique to Public Safety. This is the first annex produced by Public Safety.

1.1 Authority, Mandate and Program Activities

Public Safety Canada's mandate is both diverse and complex. The Department delivers programs and develops policies on a wide range of public safety issues while exercising a broad leadership role that brings coherence to the activities of the agencies responsible for public safety and security.

The Department plays a key role in helping keep Canadians safe and secure by working to protect Canada's national security; making sure that we are prepared to respond to and recover from any major incident; and developing effective approaches to federal law enforcement, corrections, crime prevention and management of our nation's borders.

Detailed information on Public Safety's authority, mandate and program activities can be found in its [2011-12 Part III – Departmental Performance Reports \(DPR\)](#) and [2012-13 Part III – Reports on Plans and Priorities \(RPP\)](#).

1.2 Financial Highlights

Financial Statements (unaudited) of Public Safety for the fiscal year 2011-12 can be found at <http://www.publicsafety.gc.ca/abt/dpr/2011-2012/fin-eng.aspx>. Information can also be found in the [Public Accounts of Canada](#).

Overall:

- Corporate Management (Finance), within Public Safety, currently follows a substantive testing approach to financial transactions. The Department has decentralized financial operations where financial transactions are initiated and approved outside of accounting operations. However, all transactions are processed, approved and/or recorded in the departmental financial system by a centralized departmental accounting operations group; and

- Other significant information systems, such as the Human Resources Management Information Systems (HRMS) and several custom Grants and Contributions Information Management Systems are critical to the Department's financial reporting.

Accounting Changes

- The Department applied the amended Treasury Board Accounting Standard (TBAS) 1.2 – Departmental and Agency Financial Statements, which improved the financial reporting. These changes have also been applied retroactively and comparative information for 2010-11 has been restated.

Liabilities

- Total Public Safety Liabilities are \$1.5B. The 85% (or \$1.3B) of these liabilities relate to Disaster Financial Assistance Arrangements (DFFA) obligations.

Financial Assets

- Total Public Safety gross financial assets are \$173M. 99% of these assets are Due from Consolidated Revenue Fund (CRF). Accounts Receivables account for the remaining 1% of the total gross financial assets.

Departmental Net Debt

- The Department's Net Debt has increased by \$715.5M or 112.6% from \$635.2M in 2011 to \$1.3B in 2012.

Non-Financial Assets

- The net book value of tangible capital assets is \$15M, including primarily leasehold improvements, machinery, equipment and vehicles. Public Safety acquired \$3.3M of tangible assets in 2011-12 and transferred \$2.1M in net assets to Shared Services Canada.

Expenses:

- Total Public Safety expenses for 2011-12 are \$1.156B. The majority of the expenses are for Grants and Contributions at 85% (or \$985M) and 15% (or \$171M) are for Operating expenditures. Salary comprises 70% (or \$120M) of the Operating expenditures. The remainder are Operating and Maintenance expenditures

Revenue:

- Public Safety secured new Vote Net Revenue Authorities through Supplementary Estimates C to comply with a recent amendment to the *Financial Administration Act*, which required that Departments record funding received for the provision of internal services to other government departments as revenue; and
- Public Safety collected a total of \$1.685M in revenue, of which 95% (or \$1.596M) was related to the change in accounting treatment to account for the provision of internal services to other government departments. Five percent (or \$0.89M) of the revenue collected was earned on behalf of government; as such, was not available to the Department.

Transferred Operations

- The value of the services transferred to Shared Services Canada is \$8.6M. \$3.2M of this amount has been recorded as an expense under transferred operations within the financial statements because the expenses were incurred prior to November 15th, 2011. The remaining \$5.4M has not been recorded in these financial statements, but will instead be reflected in the financial statements of Shared Services Canada.

Transfer Payments:

- Transfer payments total \$985M and are mainly broken down as follows:

Program Activities	Amount	Percentage
Emergency Management	\$853M	87%
Countering Crime	\$132M	13%
Total	\$985M	100%

- Recipients of the funding were:
 - Other levels of government, who received 88% (or \$860M);
 - Native peoples, who received 8% (or \$81M);
 - Non-Profit Organizations, who received 3% (or \$31M); and
 - Territorial Governments for Operating Expenditures, who received 1% (or 13M).

1.3 Service Arrangements Relevant to Financial Statements

Below are the details of the service arrangements relevant Public Safety's financial statements.

1.3.1 Arrangements Where Public Safety Receives Services

Public Safety 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 benefits and many information technology activities. PWGSC also provides for the procurement of some goods and services; the provision of accommodations; and billing, banking, electronic funds processing and similar payment services are provided by the Receiver General for Canada within the department of Public Works and Government Services Canada on behalf of Public Safety;
- Shared Services Canada (SSC) was created on August 4th, 2011 to consolidate, streamline and improve the government's information technology (IT) infrastructure services, specifically email, data centre and network services for 43 federal government departments and agencies. Effective November 15th, 2011, the responsibility for email, data centres and network services, including associated resources, was transferred from Public Safety to SSC. The administration and delivery of these services was shared during the 2011-12 transition period while SSC was being established.
- The Department of Justice provides legal services to Public Safety;
- The Treasury Board Secretariat provides Public Safety with information used to calculate various accruals and allowances, such as accrued severance liability.
- Human Resources and Social Development Canada provides Worker's Compensation coverage; also
- Public Safety relies on the internal controls of third party suppliers which provide specific services, such as relocation services.

Specific Arrangements:

- Public Safety's systems of record are provided by the RCMP, who hosts the Department's financial management system, and by the Correctional Services of Canada (CSC), who hosts the Department's human resource information

management system. Memorandums of Understanding (MOU) exist between Public Safety and these agencies identifying roles and responsibilities; and

- Human Resources and Skills Development Canada will provide the recipient selection and payment operations under the Air India Ex-Gratia Payment program. A MOU has been developed detailing the roles and responsibilities of both departments.

1.3.2 Arrangements Where Public Safety Provides Services

Public Safety provides Corporate Services to three Public Safety Portfolio Agencies including the Office of the Correctional Investigator of Canada (OCI), RCMP External Review Committee (ERC) and the Commission For Public Complaints Against the RCMP (CPC). Memorandums of Understanding (MOU) exist between Public Safety and these agencies identifying roles and responsibilities.

1.4 Material Changes Impacting ICFR in Fiscal-Year 2011-12

During fiscal year 2011-12 there have been changes to the control environment at Public Safety:

- Mr. G. Flack (Associate Deputy Minister) has been the Acting Deputy Minister, since Mr. W. Baker's retirement in late April 2012;
- Mr. G. Robertson was appointed to the position of Chief Financial Officer September 19th, 2011;
- Fiscal Year 2011-12 also saw a reorganization of the Emergency Management and National Security Branch (EMNS) Branch within the Department. This change resulted in the splitting of the Branch into two separate entities, with each respective Branch having its own Assistant Deputy Minister (ADM). The split resulted in the creation of Emergency Management and Regional Operations (EM&RO) Branch and the National Security (NS) Branch. This change did not result in any substantive change to the Department's Program Activity Architecture (PAA);
- Public Safety undertook an initiative to transform regional operations in order to strengthen the overall contribution of the Department's regional offices. This initiative will enhance collaboration within and across regions and headquarters and will more fully integrate the regional offices into departmental operations, while enhancing program and service delivery;
- With the approval of the Shared Services Canada Order-in-Council on November 15, 2011, some employees of Public Safety Canada were transferred to Shared

Services Canada. Employees whose positions are transferred have been informed of the change and were provided with the information required to make a smooth transition. Transferred employees will continue to be co-located within Public Safety and will continue to support the delivery of services to the department with the implementation strategy starting in 2011-12. Funding was transferred through Supplementary Estimates and Annual Reference Level Update (ARLU) processes to SSC;

- The Consolidation of Pay Services Project was approved by Treasury Board Ministers in June 2009 as part of the Transformation of Pay Administration Initiative. The Project is consolidating pay services from departments and agencies that use the endorsed Government of Canada Human Resources Management System (PeopleSoft). As a result, the Department's reference levels will be progressively decreased as pay services are consolidated within Public Works and Government Services Canada (PWGSC). One of the key components of the funding strategy (which commenced in 2011-12) is that work is transferred in a gradual and deliberate manner to ensure that the amount of funding is proportionate to the number of accounts being serviced for the Project and the ongoing operations of PWGSC's Center of Expertise (CoE). Funding was and will be transferred through Supplementary Estimates and Annual Reference Level Update (ARLU) processes.
- The following new programs or amendments to existing programs were approved in 2011-12:
 - (new) the Air India Ex-Gratia Program was approved;
 - (new) the Kanishka Program was approved;
 - (amendment) temporarily increased funding of \$15M for the First Nations Policing Program
 - (amendment) temporarily increased funding of \$7M for the Youth Gangs component of the National Crime Prevention Strategy; and
 - (amendment) previously approved Strategic Review reductions were applied to the National Crime Prevention Strategy Program.
- With the 2010-11 changes resulting from the Policy on Financial Resource Management, Information and Reporting, the resulting amendment of the Treasury Board Accounting Standards (TBAS) 1.2 & 1.3, the new Directive on the Management of Travel, Hospitality and Conferences and the Parliamentary Budget Officer requests have created new requirements for the reporting of financial information on departments. These policies/directives now require departments to produce auditable financial statements, comprehensive Future-Oriented Financial Statements and Quarterly Financial Reports, Restructured annual financial statements, a comparative annual report on travel, hospitality and conferences and reports on Supplementary Estimates net adjustments delineated by Program Activity to the Parliamentary Budget Officer. These requirements have resulted in greater focus on reporting and monitoring.

- Budget 2012 announce measures specific to Public Safety's role in the Deficit Reduction Action Plan (DRAP). In preparation for this announcement and subsequent implementation of the measures, Public Safety Canada, in conjunction with the Minister's office, developed and tested a monitoring strategy for the Department and portfolio which will track the implementation of the measures against key metrics.

2.0 Public Safety's Control Environment Relevant to ICRF

Public Safety recognizes the importance of setting the tone from the top and to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and is well equipped to exercise these responsibilities effectively. Public Safety focus is to ensure risks are managed well through a risk-based control environment that is founded on the principle of continuous improvement and innovation.

2.1 Key Positions, Roles and Responsibilities

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

Deputy Minister (DM) – As Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the DM, and Associate DM oversee the management of the Department in accordance with the expectations defined in the Management Accountability Framework, via two senior level committees: the Executive Committee and the Departmental Management Committee. Additionally, the DM sits on the Departmental Audit Committee and the Departmental Evaluation Committee. Both committees are advisory bodies who as part of their mandates provide the DM with recommendations on how to strengthen the control environment within the Departmental.

Chief Financial Officer (CFO) – Reports directly to the DM 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. The CFO meets in-camera with the Departmental Audit Committee as part of the formal agenda of all Departmental Audit Committee meetings.

Senior Departmental Managers (SDM) – Are responsible for reviewing and maintaining the effectiveness of their system of ICFR within their area of responsibilities. Their roles and responsibilities are laid out within the departmental Financial Management Framework and Transfer Payment Management Framework and have been confirmed through a sub-certification process that required that SDMs acknowledge their accountabilities under the departmental systems of internal controls, including the system of internal control over financial reporting.

Chief Audit Executive (CAE) – Reports directly to the DM and provides assurance on the integrity of the Department's financial management and financial reporting processes and the effectiveness and adequacy of risk management, internal controls, governance and accountability processes through periodic internal audits, which are instrumental to the maintenance of an effective system of ICFR. The CAE is an ex-officio member at the Departmental Audit Committee quarterly meetings.

Committees Chaired by the Deputy Minister:

Executive Committee (**ExCom**) - Meets twice weekly to serve as a forum for the [Deputy Minister](#) and [Associate Deputy Minister](#) to provide strategic direction, provide meeting debriefs, receive updates, review the departmental agenda and discuss substantive key policy issues. Committee membership includes all Assistant Deputy Ministers (ADMs), the Director General Internal Audit, the Director General (DG) of the Communications Directorate, the Executive Director, Senior General Counsel, and the Chief of Staffs to the DM and Associate Deputy Minister. This committee is chaired by the Deputy Minister and in his absence, by the Associate Deputy Minister.

Departmental Management Committee (**DMC**) - The Departmental Management Committee (including the Financial Management Committee (FMC) and the Human Resources Management Committee (HRMC)) meets twice a month to deliberate on issues relating to departmental programs and operations, in-year budgets and expenditures, systems of internal control, risk management, as well as program, operational and corporate performance. The committee membership is identical to that of the Executive Committee at the ADM level and includes the Senior General Counsel and Director General Internal Audit. Secretariat services for this committee are provided by the Corporate Services Directorate in the Corporate Management Branch.

Departmental Evaluation Committee (DEC) - The Departmental Evaluation Committee membership includes Assistant Deputy Ministers, the Director General of Communications, and Executive Director, Senior General Counsel. The Committee is chaired by the Deputy Minister, co-chaired by the Associate Deputy Minister, and supported by the Director General, Evaluation.

Independent Committees:

Departmental Audit Committee (DAC) – The Departmental Audit Committee is an independent committee that meets at least semi-annually (DAC formally met three times in 2011-12) and provides objective views on the Department’s risk management, control and governance frameworks and is comprised of three external members. It reviews Public Safety’s Corporate Risk Profile and its system of internal control, including the assessment and action plans relating to the system of ICFR.

Other Committees:

Director-General Grants and Contributions Oversight Committee (**DGGCOC**) – Provides oversight for G&C Reform work and initiatives within the Department. It reports to the Departmental Management Committee (DMC). The responsibilities of this committee include the recommendations and internal control enhancement related to Transfer Payments.

Contract Review Committee (**CRC**) – Provides an effective central procurement challenge and oversight function. The CRC plays a key role in assessing corporate risks, which includes ensuring that all procurement activity is compliant with the

relevant laws, regulations, trade agreements and policies, and fulfilling the government's commitment to fairness, openness and transparency.

2.2 Key Measures Taken By Public Safety

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

Governance:

- A Champion at the Director General level of Professional Ethics & Integrity, reporting directly to the CFO;
- A Corporate Risk Profile that is updated annually;
- Regularly updated authorities instruments to meet the operational and stewardship requirements of the organization;
- Annual employee performance agreements and learning plans with clear financial management responsibilities for budget managers;
- A risk-based multi-year internal audit plan developed with input from each member of the Department Management Committee prior to endorsement by the Departmental Audit Committee;
- A sub-certification signed by each member of the Departmental Management Committee as confirmation that their respective organizations have maintained a system of internal control designed to provide reasonable assurance that their financial information is reliable;
- A departmental Financial Management Framework was approved by DMC; and
- A departmental Transfer Payment Management Framework was approved by DMC.

Oversight:

- A Centralized Internal Control Unit with the assistance of external contractors dedicated to the documentation, design and operating effectiveness of internal controls over financial reporting;
- Working Groups devoted to addressing control weaknesses identified as part of the implementation of the *Policy on Internal Control* and the external review of the Department's Readiness Assessment for Internal Control over Financial Reporting;

- As per the Control Objectives for Information and related Technology (COBIT) control framework a review was undertaken of the General IT Controls within the Department and the application specific controls of the systems hosted by other government departments (Royal Canadian Mounted Police for the financial management system and the Correctional Services of Canada for the human resources information management system); and
- Thrice yearly Departmental Audit Committee meetings.

Capacity:

- Training and regular communications to employees on core areas of financial management, including internal controls;
- Mandatory Canada School Public Service financial courses are incorporated into the learning plans of financial specialists to ensure a skilled workforce;
- Hiring through developmental programs where employees are exposed to key aspects of financial stewardship in order to develop a competent and knowledgeable workforce.

3.0 Assessment of Public Safety's System of ICFR

3.1 Assessment Approach

To satisfy the requirements of the *Policy on Internal Control*, Public Safety 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 assessment of design and operating effectiveness of the system of ICFR leading to the ongoing monitoring and continuous improvement of the departmental system of ICFR.

Design effectiveness means to ensure that key control points are identified, documented, in place and that they 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 means that a systemic integrated approach to monitoring is in place, including periodic risk-based and timely remediation.

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

3.2 Scope of Public Safety's Assessment as of March 31st, 2012

As a cluster III department, this is Public Safety's first formal report on its system of ICFR. To satisfy the *Policy on Internal Control*, Public Safety Canada has taken measures to develop a baseline assessment of its system of ICFR. It used its annual financial statements as a starting point to identify its main business processes through a readiness assessment conducted by an external party in 2009. This baseline assessment determined the material accounts for the system of ICFR and has been the foundation for

the development of a risk-based multi-year plan to implement the *Policy on Internal Control*.

Public Safety has developed a five-year plan which includes documentation, design testing, effectiveness testing, remediation and ongoing monitoring of its material business processes. The material business processes for Public Safety are:

- Grants and Contribution;
- Disaster Financial Assistance Arrangement;
- Salary Expenditures;
- Purchase to Pay (Operating Expenditures);
- Capital Assets; and
- Information Technology General and Application Specific Controls.

For these processes, except Capital Acquisitions, the following steps have been taken:

- Gathered information pertaining to processes, risks and controls relevant to ICFR, including appropriate policies and procedures which included interviews with key staff and the review of policies, guidelines, directives and tools;
- Mapped out key processes with the identification and documentation of key risks and control points on the basis of materiality, volumes, complexity, geographic dispersion, susceptibility to losses/fraud, areas subject to audit observations, past history, external attention and reliance on third parties;
- Completed design testing for the following business processes:
 - Payroll (2009-2010);
 - Grants and Contributions (2010-2011);
 - Disaster Financial Assistance Arrangements (2010-2011); and
 - Purchase to Pay (2010-11).
- Completed effectiveness testing for the Payroll process in 2010-2011; and
- Capital Acquisitions will be reviewed in 2012-13; focusing on documentation and process mapping related to identify the key controls. Thereafter, the Department will complete a test of design of the key controls. Effectiveness testing of the Capital Acquisitions key controls is planned for 2013-14.

4.0 Departmental Assessment Results as of March 31st, 2012

As a result of the assessment approach described above, Public Safety developed a baseline architecture of all key control points of its material business processes and main related information technology systems.

In assessing its key controls, Public Safety is focusing on design effectiveness which is the prerequisite to testing operating effectiveness.

4.1 Design Effectiveness of Key Controls

In completing design effectiveness assessments, Public Safety validated and documented all key controls, including their verification by process owners and confirmed whether the documented process and information technology systems documentation in place corresponds to actual practice. Design effectiveness also includes ensuring appropriate alignment of each key control point with risk. The next step in the process is to complete identified remediation requirements.

Public Safety has taken into account information from relevant audits, including:

- Audit of Grants and Contributions Payment processes (performed by Internal Audit);
- Audit of Financial Planning, Monitoring and Reporting processes (performed by Internal Audit);
- Audit of National Crime Prevention Strategy Program (performed by Internal Audit); and
- Readiness Assessment of Public Safety Internal Control over Financial Reporting (performed by an external party).

To date, test of design assessments supported by internal audit findings have resulted in action plans to address control weaknesses identified in the following processes:

- Payroll;
- Grants and Contribution;
- Disaster Financial Assistance Arrangements; and
- Purchase to Pay processes.

Key findings identified in the design assessment of Purchase-to-Pay and Disaster Financial Assistance Arrangements (DFAA) has been reviewed with remedial steps taken to address all control weaknesses identified in the Department.

The Department was not able to complete all elements of the remediation of the Grants and Contributions key control weaknesses, in that, the development of a standard payment request form was deferred to fiscal year 2012-13 as a result of delays associated with finalizing the Audit of the Grants and Contributions Payment processes. Key personal were redirected from this review to support the preparation of Deficit Reduction Action Plan (DRAP) Treasury Board Submission and subsequent follow-up activities from the review of the proposal by the Treasury Board Secretariat and the Strategic Operating Review Committee (SORC).

4.2 Operating Effectiveness of Key Controls

Public Safety began effectiveness testing of internal controls in 2009-10 with its payroll process. The approach involved a risk-based testing plan that identified the key controls to be tested over a defined period of time, with the appropriate method of testing and using technology to obtain assurance where possible. Subsequent effectiveness testing will also follow this approach.

Key findings related to the effectiveness testing of the payroll process demonstrated a lack of evidentiary consistency related to key control points. With the consolidation of pay services in a new Centre of Expertise in Miramichi, New Brunswick; the remediation of findings identified in the test of effectiveness of payroll will need to consider all partners involved in their resolution.

Public Safety Canada is one of six organizations identified in the first wave of the project (which commenced in 2011-12). PWGSC is working closely with impacted departments and agencies to transfer the work in a gradual and structured manner. As part of the process, Public Safety will be working with PWGSC to ensure that key control points are functioning as designed. Both PWGSC and Public Safety must be satisfied that joint or overlapping control points are providing reasonable assurance that the system of ICFR is functioning as designed. Public Safety will ensure that specific roles and responsibilities related to the system of ICFR are identified in the MOU between the departments.

5.0 Public Safety's Action Plan

5.1 Progress Made During the Fiscal Year Ending March 31, 2012

To date, Public Safety Canada made significant progress in assessing and improving its key financial controls. Below is a summary of the main progress made by the Department:

- Public Safety completed the documentation and commenced the design assessment testing for the following processes:
 - Payroll;
 - Grants and Contributions;
 - Disaster Financial Assistance Arrangements; and
 - Purchase to Pay;

In response to control weaknesses previously identified in internal audits and external reviews, the Department has implemented corrective measures and is in the process of implementing ongoing processes to strengthen monitoring to ensure that key control points are functioning effectively.

- Internal Control Working Groups with direction from the Corporate Management Branch have been meeting to ensure Branch alignment to standard practices related to key control points. The work of these Working Groups is reported to the Departmental Management Committee.
- Public Safety has undertaken a campaign to increase budget managers' awareness of their role in ensuring the system of ICFR is balanced with and proportionate to the risks which are being mitigated.
- The Department did not progress its remediation of the Salary process due to the new initiative to consolidate pay services within PWGSC;
- The Department was not able to complete all elements of the remediation of the Grants and Contributions key control weaknesses, in that, the development of a standard payment request form was deferred to fiscal year 2012-13 as a result of delays associated with finalizing the Audit of the Grants and Contributions Payment processes. Key personnel were redirected from this review to support the preparation of Deficit Reduction Action Plan (DRAP) Treasury Board Submission and subsequent follow-up activities from the review of the proposal by the

Treasury Board Secretariat and the Strategic Operating Review Committee (SORC).

- During 2011-12, Public Safety addressed control gaps within the Disaster Financial Assistance Arrangements Program and Purchase to Pay processes. The remedial actions taken are as follows:
 - Realignment of the Departmental Management Committee to adopt a theme-based approach to meetings, ensuring that ICFR is a management priority;
 - Approval of a departmental Financial Management Framework;
 - Approval of a departmental Transfer Payment Management Framework;
 - Implementation of Certification and Sub-Certification process to support the Statement of Management Responsibility;
 - Approval of standard departmental certification and payment processes and alignment of individual Branch process to key control points;
 - Adoption of an automated invoice processing procedure which permits the tracking and monitoring of invoice payments from the receipt of the invoices by the Department to the filing of the payment file in Records;
 - Approval of a risk-based accounts verification procedure which will provide for 100% pre-payment of high-risk transactions and the post-payment verification of low and medium risk transactions;
 - Completed a COBIT-based review of application specific information technology controls for the hosted resource management systems (financial and human resources); and
 - Strengthening financial management within the Department through the creation of a FI-04 position within Resource Management and Corporate Reporting.

5.2 Action Plan – Future Years

Timeline - Key Business Process Documentation						
Business Process	Prior Years	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Payroll Processes						
Design Testing	X					
Effectiveness Testing	X					
Remediation		X				
Monitoring			X	X	X	X
Grants and Contributions Processes						
Design Testing	X					
Effectiveness Testing		X				
Remediation			X	X		
Monitoring					X	X
Disaster Financial Assistance Arrangements						
Design Testing	X					
Effectiveness Testing		X				
Remediation			X			
Monitoring				X	X	X
Purchase to Pay Processes						
Design Testing	X					
Effectiveness Testing			X			
Remediation				X	X	
Monitoring						X
Capital Assets						
Design Testing		X				
Effectiveness Testing			X			
Remediation				X		
Monitoring					X	X
IT General Controls						
Design Testing			X			
Effectiveness Testing				X		
Remediation					X	
Monitoring						X
IT Application Specific Controls						
Design Testing			X			
Effectiveness Testing				X		
Remediation					X	
Monitoring						X

By the end of 2012-13, Public Safety plans to:

- Commence the assessment of the design effectiveness for:
 - Capital Assets
- Conduct operating effectiveness testing for:
 - Grants and Contributions Processes; and
 - Disaster Financial Assistance Arrangement;
- Complete the remediation of the payroll process observations in conjunction with Public Works and Government Services as part of the Shared Services Initiative related to compensation services; and
- No monitoring activities are planned for 2012-13

By the end of 2013-14, Public Safety plans to:

- Commence the assessment of the design effectiveness for:
 - IT General Controls;
 - IT Application Specific Controls.
- Conduct operating effectiveness testing for:
 - Purchase to Pay;
 - Capital Assets;
- Initiate or complete the remediation of any observations arising from the effectiveness testing of:
 - Grants and Contributions processes (expected to require 2 fiscal years);
 - Disaster Financial Assistance Arrangement processes; and
- The Department should commence monitoring of the system of ICFR related to payroll processes.

By the end of 2014-15, Public Safety plans to:

- Conduct operating effectiveness testing for:
 - IT General Controls; and
 - IT Application Specific Controls;
- Initiate or complete the remediation of any observations arising from the effectiveness testing of:
 - Grants and Contributions processes (final year of 2 year process);
 - Purchase to Pay (expected to take 2 years)
 - Capital Assets;
- Commence monitoring activities for the following Business Processes:
 - Disaster Financial Assistance Arrangement processes; and

By the end of 2015-16, Public Safety plans to:

- Complete the remediation of any observations arising from the effectiveness testing of:
 - Purchase to Pay (final year of 2 year process);
 - IT General Controls; and
 - IT Application Specific Controls;
- Commence monitoring activities for the following Business Processes:
 - Grants and Contributions; and
 - Capital Assets;

By the end of 2016-17, Public Safety plans to:

- Commence monitoring activities for the following Business Processes:
 - Purchase to Pay;
 - IT General Controls; and
 - IT Application Specific Controls;

This timeline is contingent on the level of effort required to address any gaps that will be identified in future design and operating effectiveness phases. In Fiscal Year 2012-13, the Department has invested an additional \$525K to accelerate the implementation of the *Policy on Internal Control*. The Department is also assessing whether it can commit a similar level of investment in 2013-14 to achieve compliance with the Policy sooner than planned.