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SHARED SERVICES CANADA

Financial Statements

March 31, 2014



Shared Services
Canada

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Canada

Canada 

Shared Services Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2014, and all information contained in these statements rests with the management of Shared Services Canada. 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 Shared Services Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Shared Services 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 (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Shared Services Canada 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.

As summarized in the attached annex accompanying these financial statements, a risk-based assessment of the system of ICFR for the year ended March 31, 2014 was completed in accordance with the Treasury Board *Policy on Internal Control*.

The effectiveness and adequacy of Shared Services Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Shared Services Canada's operations, and by the Departmental Audit and Evaluation Committee, which provides objective advice and recommendations to the President regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the department's risk management, control and governance frameworks and processes. The Committee also provides advice on the financial statements to the President of Shared Services Canada.

The financial statements of Shared Services Canada have not been audited.

*Original signed by Grant Westcott
for Liseanne Forand*

Liseanne Forand
President

Ottawa, Canada
August 27, 2014

*Original signed by Pankaj Sehgal
for Elizabeth Tromp*

Elizabeth Tromp
**A/Senior Assistant Deputy Minister,
Corporate Services, and
Chief Financial Officer**

Shared Services Canada
Statement of Financial Position (Unaudited)
As at March 31
(in thousands of dollars)

	2014	2013
Liabilities		
Accounts payable and accrued liabilities (note 4)	431,036	384,180
Vacation pay and compensatory leave	31,487	22,333
Deferred revenue (note 5)	12,716	17,340
Lease obligations for tangible capital assets (note 6)	29,313	52,201
Employee future benefits (note 7)	29,165	57,531
Total liabilities	533,717	533,585
Financial assets		
Due from the Consolidated Revenue Fund	332,965	267,299
Accounts receivable and advances (note 8)	138,568	181,475
Total gross financial assets	471,533	448,774
Financial assets held on behalf of Government		
Accounts receivable and advances (note 8)	(2,388)	(3,587)
Total financial assets held on behalf of Government	(2,388)	(3,587)
Total net financial assets	469,145	445,187
Departmental net debt	64,572	88,398
Non-financial assets		
Prepaid expenses	27,735	34,850
Tangible capital assets (note 9)	329,927	324,147
Total non-financial assets	357,662	358,997
Departmental net financial position	293,090	270,599

Contractual obligations (note 10)
Contingent liabilities (note 11)

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

*Original signed by Grant Westcott
for Liseanne Forand*

Liseanne Forand
President

Ottawa, Canada
August 27, 2014

*Original signed by Pankaj Sehgal
for Elizabeth Tromp*

Elizabeth Tromp
**A/Senior Assistant Deputy Minister,
Corporate Services, and
Chief Financial Officer**

Shared Services Canada
Statement of Operations and Departmental Net Financial Position (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	<u>2014</u>	<u>2014</u>	<u>2013</u>
	Planned Results		
Expenses			
Efficient and effective IT infrastructure services	1,480,014	1,877,231	1,647,030
Internal services	<u>207,553</u>	<u>157,194</u>	<u>118,300</u>
Total expenses	1,687,567	2,034,425	1,765,330
Revenues			
Sale of goods and services	317,117	342,901	381,915
Miscellaneous revenues	55	47	35
Revenues earned on behalf of Government	<u>(37)</u>	<u>(8,146)</u>	<u>(8,470)</u>
Total revenues	317,135	334,802	373,480
Net cost of operations before government funding and transfers	1,370,432	1,699,623	1,391,850
Government funding and transfers			
Net cash provided by Government of Canada		1,593,765	1,247,414
Change in due from the Consolidated Revenue Fund		65,666	139,225
Services provided without charge by other government departments (note 12)		52,167	47,457
Transfer of assets from other government departments for workplace technology devices (note 13)		7,350	-
Transfer of tangible capital assets from other government departments		3,166	3,444
Transfer of tangible capital assets to other government departments		<u>-</u>	<u>(1,392)</u>
Net cost of operations after government funding and transfers		(22,491)	(44,298)
Departmental net financial position – Beginning of year		270,599	226,301
Departmental net financial position – End of year		<u>293,090</u>	<u>270,599</u>

Segmented information (note 14)

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

Shared Services Canada
Statement of Change in Departmental Net Debt (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	<u>2014</u>	<u>2013</u>
Net cost of operations after government funding and transfers	(22,491)	(44,298)
Change due to tangible capital assets		
Acquisitions of tangible capital assets	132,701	118,199
Amortization of tangible capital assets	(133,689)	(120,045)
Net loss on disposal of tangible capital assets and adjustments	(26)	(740)
Transfers from other government departments	6,794	3,444
Transfers to other government departments	-	(1,392)
Total change due to tangible capital assets	5,780	(534)
Change due to prepaid expenses	(7,115)	(7,636)
Net increase (decrease) in departmental net debt	(23,826)	(52,468)
Departmental net debt – Beginning of year	88,398	140,866
Departmental net debt – End of year	64,572	88,398

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

Shared Services Canada
Statement of Cash Flows (Unaudited)
For the Year Ended March 31
(in thousands of dollars)

	<u>2014</u>	<u>2013</u>
Operating activities		
Net cost of operations before government funding and transfers	1,699,623	1,391,850
Non-cash items:		
Amortization of tangible capital assets	(133,689)	(120,045)
Net loss on disposal of tangible capital assets and adjustments	(26)	(740)
Services provided without charge by other government departments (note 12)	(52,167)	(47,457)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(41,708)	133,232
Increase (decrease) in prepaid expenses	(7,115)	(7,636)
Decrease (increase) in accounts payable and accrued liabilities	(46,856)	(217,877)
Decrease (increase) in vacation pay and compensatory leave	(9,154)	(1,793)
Decrease (increase) in deferred revenue	4,624	(17,340)
Decrease (increase) in employee future benefits	28,366	36,125
Transfer of prepaids from other government departments (note 13)	(3,722)	-
Cash used in operating activities	<u>1,438,176</u>	<u>1,148,319</u>
Capital investing activities		
Acquisitions of tangible capital assets (excluding leased tangible capital assets)	132,701	75,667
Cash used in capital investing activities	<u>132,701</u>	<u>75,667</u>
Financing activities		
Payments on lease obligations for tangible capital assets	22,888	23,428
Cash used in financing activities	<u>22,888</u>	<u>23,428</u>
Net cash provided by Government of Canada	<u>1,593,765</u>	<u>1,247,414</u>

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

Shared Services Canada
Notes to the Financial Statements (*Unaudited*)
For the Year Ended March 31

1. Authority and objectives

Shared Services Canada (SSC) is a federal department created on August 4, 2011, to fundamentally transform how the Government of Canada manages its information technology (IT) infrastructure. SSC reports to Parliament through the Minister of Public Works and Government Services and is responsible for delivering mandated email, data centre and network services to its partner departments in a consolidated and standardized manner to support the delivery of Government of Canada programs and services. SSC also provides certain optional technology-related services to government organizations on a cost-recovery basis. With a whole-of-government approach to IT, SSC is creating economies of scale to deliver more efficient, reliable and secure IT infrastructure services to Government of Canada departments. SSC's mandate was reinforced on June 29, 2012, with the passage of the *Shared Services Canada Act* by Parliament.

On April 3, 2013, SSC was given the mandate to provide services related to the acquisition and provision of hardware and software for workplace technology devices. This government-wide, standardized, centralized approach to supplying and supporting workplace technology devices will reduce costs and strengthen the security of government systems.

SSC's Program Alignment Architecture supports the achievement of the following strategic outcome: *Mandated services are delivered in a consolidated and standardized manner to support the delivery of Government of Canada programs and services for Canadians.*

SSC's Program Alignment Architecture includes the following programs:

- **Efficient and effective information technology infrastructure services are delivered across Government of Canada (Efficient and effective IT infrastructure services):** Enterprise-wide consolidation in the areas of email, data centres and telecommunications improves the overall efficiency, reliability and security of IT infrastructure.
- **Internal services:** Internal services are groups of activities and resources that support the programs and other corporate obligations of an organization. Internal services include only those activities and resources that apply across an organization and not those provided to a specific program. These activity groups include: management and oversight services; communications services; legal services; human resources management services; financial management services; information management services; IT services; real property services; materiel services; acquisition services; and travel and other administrative services.

2. Summary of 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

SSC is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to SSC 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

Shared Services Canada
Notes to the Financial Statements (*Unaudited*)
For the Year Ended March 31

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 Statement of Operations included in the *2013-14 Report on Plans and Priorities*.

b) Net cash provided by Government of Canada

SSC operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by SSC is deposited to the Consolidated Revenue Fund, and all cash disbursements made by SSC are paid from the Consolidated Revenue Fund. 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 or to the Consolidated Revenue Fund

Amounts due from or to the Consolidated Revenue Fund are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the Consolidated Revenue Fund. Amounts due from the Consolidated Revenue Fund represent the net amount of cash that SSC is entitled to draw from the Consolidated Revenue Fund 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.

Funds that have been received in advance are recorded as deferred revenue, provided SSC has an obligation to other parties for the provision of goods, services or the use of assets in the future.

Revenues that are non-respendable are not available to discharge SSC's liabilities. While the President is expected to maintain accounting control, she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of SSC's gross revenues.

e) Expenses

Expenses are recorded on the accrual basis:

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

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

f) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the government. SSC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. SSC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

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

g) Accounts receivable

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

h) 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. SSC does not hold, and therefore does not capitalize the following capital assets: 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
Buildings	From 20 to 40 years
Works and infrastructure	From 20 to 40 years
Machinery and equipment	From 5 to 15 years
Computer hardware	From 3 to 10 years
Computer software	From 3 to 10 years
Vehicles	From 6 to 8 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Leased tangible capital assets	According to the useful life of the asset if a bargain purchase option exists or over the term of the lease

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.

i) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur 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 if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

Shared Services Canada
Notes to the Financial Statements (*Unaudited*)
For the Year Ended March 31

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 the liability for 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.

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

3. Parliamentary authorities

SSC receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, SSC 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

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Net cost of operations before government funding and transfers	1,699,623	1,391,850
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(133,689)	(120,045)
Net loss on disposal of tangible capital assets and adjustments	(26)	(740)
Services provided without charge by other government departments	(52,167)	(47,457)
Decrease (increase) in vacation pay and compensatory leave	(9,154)	(1,793)
Decrease (increase) in employee future benefits	4,091	60,513
Bad debt expense	-	3
Refunds and adjustments to previous years' expenses	16,022	2,679
Respendable revenue	(16,223)	23,172
Other	9	-
Total items affecting net cost of operations but not affecting authorities	<u>(191,137)</u>	<u>(83,668)</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets (excluding leased tangible capital assets)	132,701	75,667
Payments on lease obligations for tangible capital assets	22,888	23,428
Increase (decrease) in prepaid expenses	(10,837)	(7,636)
Revenue available for spending	-	(18,496)
Other	-	4
Total items not affecting net cost of operations but affecting authorities	<u>144,752</u>	<u>72,967</u>
Current year authorities used	<u>1,653,238</u>	<u>1,381,149</u>

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

b) Authorities provided and used

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Authorities provided:		
Vote 15 – Operating expenditures	1,406,522	1,370,381
Vote 20 – Capital expenditures	221,727	101,459
Statutory amounts	90,574	80,611
Less:		
Authorities available for future years	(9)	(2)
Lapsed: Operating expenditures	(42,724)	(171,300)
Lapsed: Capital expenditures	(22,850)	-
Lapsed: Statutory amounts	(2)	-
Current year authorities used	<u>1,653,238</u>	<u>1,381,149</u>

4. Accounts payable and accrued liabilities

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

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Accounts payable - Other government departments and agencies	26,200	44,578
Accounts payable - External parties	193,240	182,057
Total accounts payable	<u>219,440</u>	<u>226,635</u>
Accrued liabilities	211,596	157,545
Total accounts payable and accrued liabilities	<u>431,036</u>	<u>384,180</u>

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

5. Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received prior to services being performed. Revenue is recognized in the period in which the service is performed. Details of the transactions related to this account are as follows:

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Opening balance	17,340	-
Amounts received	-	18,496
Revenue recognized	(4,624)	(1,156)
Net closing balance	<u>12,716</u>	<u>17,340</u>

6. Lease obligations for tangible capital assets

SSC has entered into agreements to lease certain computer hardware under capital leases with a cost of \$73 million and accumulated amortization of \$42 million as at March 31, 2014 (\$81 million and \$27 million respectively as at March 31, 2013). The obligations related to the upcoming years include the following:

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
2014	-	23,444
2015	20,417	20,417
2016	9,148	9,149
Total future minimum lease payments	<u>29,565</u>	<u>53,010</u>
Less: imputed interest (0.14% to 6.73%)	252	809
Balance of obligations under leased tangible capital assets	<u>29,313</u>	<u>52,201</u>

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

7. Employee future benefits

a) Pension benefits

SSC's employees participate in the public service pension plan (the "Plan"), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

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

The 2013-2014 expense amounts to \$64 million (\$54 million in 2012-2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 times in 2012-2013) the employees' contributions and, for Group 2 members, approximately 1.5 times (1.6 times in 2012-2013) the employees' contributions.

SSC'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

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

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

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

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation - Beginning of year	57,531	93,656
Expense (adjustment) for the year	16,576	(7,161)
Benefits paid during the year	(44,942)	(28,964)
Accrued benefit obligation - End of year	<u>29,165</u>	<u>57,531</u>

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

8. Accounts receivable and advances

The following table presents details of SSC's accounts receivable and advances:

	<u>2014</u>	<u>2013</u>
	<i>(in thousands of dollars)</i>	
Receivables - Other government departments and agencies	130,564	179,337
Receivables – External parties	7,988	2,120
Employee advances	23	25
Subtotal	<u>138,575</u>	<u>181,482</u>
Allowance for doubtful accounts on receivables from external parties	(7)	(7)
Gross accounts receivable	<u>138,568</u>	<u>181,475</u>
Accounts receivable held on behalf of Government	(2,388)	(3,587)
Net accounts receivable	<u>136,180</u>	<u>177,888</u>

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

9. Tangible capital assets

(in thousands of dollars)

Capital Asset Class	Cost					Accumulated amortization					Net Book Value	
	Opening Balance	Acquisitions	Adjustments	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments	Disposals and Write-offs	Closing Balance	2014	2013
Land	2	-	(2)	-	-	-	-	-	-	-	-	2
Buildings	3,085	-	-	-	3,085	1,945	103	-	-	2,048	1,037	1,140
Works and infrastructure	27	-	-	-	27	2	1	-	-	3	24	25
Machinery and equipment	46,286	101	3,778	355	49,810	23,379	3,823	1,319	355	28,166	21,644	22,907
Computer hardware	871,866	101,494	26,639	9,046	990,953	669,464	92,668	5,337	9,046	758,423	232,530	202,402
Computer software	123,578	2,587	6,265	307	132,123	103,373	11,307	2,325	307	116,698	15,425	20,205
Vehicles	25	-	-	-	25	4	4	-	-	8	17	21
Leasehold improvements	3,967	12,848	-	-	16,815	1,751	2,742	-	-	4,493	12,322	2,216
Leased tangible capital assets	81,090	-	-	8,133	72,957	27,334	23,041	-	8,133	42,242	30,715	53,756
Assets under construction	21,473	15,671	(20,931)	-	16,213	-	-	-	-	-	16,213	21,473
Total	1,151,399	132,701	15,749	17,841	1,282,008	827,252	133,689	8,981	17,841	952,081	329,927	324,147

Adjustments include assets under construction of \$21.0 million that were transferred to the other categories upon completion of the assets.

On April 3, 2013, SSC was transferred computer software with a net book value of \$3.6 million from several other government departments (see note 13 for further detail on the transfer). This transfer is included in the adjustment columns. Also, during the year, SSC received machinery and equipment, computer hardware, computer software and assets under construction from many other government departments with a net book value of \$3.2 million. These transfers are also included in the adjustment columns.

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

10. Contractual obligations

The nature of SSC's activities can result in some large multi-year contracts and obligations whereby SSC will be obligated to make future payments when the services/goods are received. Significant contractual obligations (\$10 million or more) that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2015	2016	2017	2018	2019 and thereafter	Total
Acquisition of goods and services	536,918	181,732	103,837	29,590	30,566	882,643
Operating leases	3,882	3,882	3,882	3,882	-	15,528
Total	540,800	185,614	107,719	33,472	30,566	898,171

11. Contingent liabilities

In the normal course of its operations, SSC may become involved in various legal actions. Some of these legal actions may result in actual liabilities when one or more future events occur. No contingent liabilities are recognized in SSC's financial statements for the fiscal year ended March 31, 2014.

12. Related party transactions

As a result of common ownership, SSC is related to all government departments, agencies, and Crown corporations. SSC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, SSC received common services which were obtained without charge from other government departments and provided common services without charge to other government departments as disclosed below.

(a) Common services provided without charge by other government departments

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

	2014	2013
	<i>(in thousands of dollars)</i>	
Employer's contribution to the health and dental insurance plans	47,697	47,451
Accommodation	4,466	-
Legal services	4	6
Total	52,167	47,457

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

Shared Services Canada
Notes to the Financial Statements (Unaudited)
For the Year Ended March 31

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 SSC's Statement of Operations and Departmental Net Financial Position.

(b) Common services provided without charge to other government departments

During the year, SSC provided services without charge to other government departments, related to the provision of IT infrastructure services.

(c) Other transactions with related parties

	2014	2013
	<i>(in thousands of dollars)</i>	
Expenses – Services provided to SSC by other government departments and agencies	242,488	312,512
Revenues – Services provided by SSC to other government departments and agencies	334,587	372,521

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

13. Transfers from other government departments

On April 3, 2013, pursuant to Order-in-Council 2013-0368, several other government departments transferred to SSC the responsibility for the acquisition and provision of hardware and software, including security software, for workplace technology devices, as well as the stewardship responsibility for the assets and liabilities related to the program. Accordingly, SSC received the following assets related to the acquisition and provision of software, including security software, for workplace technology devices from several other government departments:

	<i>(in thousands of dollars)</i>
Prepaid expenses	3,722
Tangible capital assets (net book value) (note 9)	3,628
Total assets received	7,350
Adjustment to the departmental net financial position	7,350

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14. Segmented information

Presentation by segment is based on SSC's Program Alignment Architecture. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the programs, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

<i>(in thousands of dollars)</i>	Efficient and effective IT infrastructure services	Internal services	2014 Total	2013 Total
Operating expenses				
Salaries and employee benefits	619,688	95,270	714,958	601,570
Telecommunications	463,267	3	463,270	481,577
Rentals	219,119	1,584	220,703	199,433
Professional and special services	172,066	31,275	203,341	172,448
Machinery and equipment	162,405	6,092	168,497	86,710
Amortization of tangible capital assets	124,187	9,502	133,689	120,045
Repairs and maintenance	90,249	515	90,764	67,262
Accommodation	4,460	10,678	15,138	8,653
Transportation	6,748	1,110	7,858	5,806
Utilities, materials and supplies	5,727	990	6,717	9,792
Information	653	156	809	1,818
Interest on capital lease payments	557	-	557	1,025
Loss on write-offs of tangible capital assets	-	-	-	740
Other expenses	8,105	19	8,124	8,451
Total operating expenses	1,877,231	157,194	2,034,425	1,765,330
Revenues				
Sale of goods and services	342,900	1	342,901	381,915
Miscellaneous revenues	18	29	47	35
Revenues earned on behalf of Government	(8,124)	(22)	(8,146)	(8,470)
Total revenues	334,794	8	334,802	373,480
Net cost of operations before government funding and transfers	1,542,437	157,186	1,699,623	1,391,850

15. Comparative information

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

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

Assessment of Internal Controls over
Financial Reporting and the Action Plan for the fiscal
year ending March 31, 2014

Annex to the Statement of Management Responsibility including Internal Control Over Financial Reporting - Fiscal Year 2013-2014

1. Introduction

This document provides summary information on the measures taken by Shared Services Canada (SSC) to maintain an effective system of internal control over financial reporting, including information on internal control management, assessment results and related action plans. Fiscal year 2013-2014 was the second year SSC received its own budget and operated as a stand-alone department since creation on August 4, 2011. This is the second year SSC has produced the *Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting*.

Detailed information on the department's authority, mandate and program activities can be found in the [2013-2014 Departmental Performance Report](#) and the [2014-2015 Report on Plans and Priorities](#).

2. Departmental system of internal control over financial reporting

2.1 Internal control management

SSC has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A draft Departmental Internal Control Management Framework has been developed and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- Values and ethics;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- At least semi-annual monitoring of and regular updates on internal control management, as well as the provision of related assessment results and action plans to the President and departmental senior management and, as applicable, the Departmental Audit and Evaluation Committee.

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

The Departmental Internal Control Management Framework is in the process of being finalized and approved.

2.2 Service arrangements relevant to financial statements

2.2.1 Reliance by SSC on other federal government organizations

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

Common Arrangements

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of goods and services as per the delegation of authority of other government organizations;
- The Treasury Board of Canada Secretariat provides SSC with information used to calculate various accruals and allowances, such as the accrued severance liability; and
- The Department of Justice provides legal services to SSC.

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Specific Arrangements

- PWGSC provides SSC with a SAP financial system platform to capture and report all financial transactions; and
- Agriculture and Agri-Food Canada (AAFC) provides SSC with a PeopleSoft platform to process transactions related to human resources.

2.2.2 SSC services upon which partner organizations rely

SSC provides information technology (IT) infrastructure services to partner organizations in the areas of data centre and network services.

3. Departmental assessment results during fiscal year 2013-2014

The fiscal 2013-2014 represented SSC's second full year as a stand-alone department. The department has taken measures to be compliant with the Treasury Board *Policy on Internal Control* by developing a four-year phased approach for implementation. A multi-year plan for the assessment of Internal Control over Financial Reporting will continue to be developed to carry out design and operating effectiveness testing for key control areas. An on-going monitoring program will be implemented following remediation action resulting from the design and operating effectiveness testing.

Another priority for SSC is to conduct an assessment of Information Technology General Controls (ITGC) for the IT Infrastructure Services supporting partner organizations as well as SSC, in relation to Internal Control over Financial Reporting (ICFR). This will include the development of an ITGC Framework for IT Infrastructure Services, which will identify and describe key relevant controls. During 2013-2014, the department devoted significant time and effort on this priority, which included the following:

- The development of a high-level approach, which was approved by senior management and presented to the Departmental Audit and Evaluation Committee;
- The establishment of a Director General-level working group, which is chaired by a Senior Executive and meets bi-weekly;
- The development of a draft framework based on the IT Control Objectives for Sarbanes-Oxley (COBIT for SOX);
- Procurement activities for a multi-year contract award for professional services; and
- Engagement activities to inform partner organization and other stakeholders.

The departmental action plan for the assessment of ICFR for SSC was adjusted by deferring certain activities in order to implement the priority for the assessment of ITGCs for IT Infrastructure Services.

3.1 Design effectiveness testing of key controls

For the assessment of ICFR, the Department continued scoping and risk assessment to confirm key control areas and more fully establish its multi-year plan. Key control areas include:

- Entity Level Controls;
- ITGCs for SSC's financial system SIGMA (hosted by PWGSC) and relevant feeder systems, such as PeopleSoft (hosted by AAFC); and
- Business Process Controls, such as Financial Close and Reporting, Capital Assets, Payroll, Procure to Payment, and Revenue.

SSC also developed a draft Internal Control Management Framework which encompasses the assessment of ICFR as well as the assessment of ITGCs for IT Infrastructure Services.

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Once documentation is sufficiently complete, the department will commence the design effectiveness testing in each of these areas.

3.2 Operating effectiveness testing of key controls

In accordance with the multi-year departmental action plan, the testing is scheduled to commence in 2016-2017 for key areas.

3.3 Ongoing monitoring of key controls

In accordance with the multi-year departmental action plan, the monitoring program is scheduled to commence in 2017-2018 for key areas.

4. Departmental action plan

4.1 Progress during fiscal year 2013-2014

During 2013-2014, SSC continued to make significant progress in assessing and improving its key controls. The following table summarizes the department's progress based on the plans identified in the previous fiscal year's annex.

Progress During Fiscal Year 2013-2014

Element in previous year's action plan	Status
Complete a departmental framework for ICFR.	<ul style="list-style-type: none"> • The original draft framework was significantly redeveloped as the ICMF to align with the Treasury Board Guideline for the <i>Policy on Internal Control</i>. • The draft ICMF is in the process of being finalized and approved during 2014-2015.
Finalize the risk assessment and scoping of key control areas related to: <ul style="list-style-type: none"> • Entity Level Controls, • IT General Controls, and • Business Process Controls 	<ul style="list-style-type: none"> • Completed the risk assessment and scoping exercise for some Business Process Controls. • In relation to ITGCs for financial applications and related feeder systems, SSC started discussions with PWGSC and Agriculture and Agri-Food Canada who host the SAP financial system and PeopleSoft system respectively. • Ensured proper controls are in place during the system under development stage of a major feeder system, the electronic procurement and payment system, which will be interfaced with the SAP system.

Annex to the Statement of Management Responsibility including Internal Control Over Financial Reporting - Fiscal Year 2013-2014

Element in previous year's action plan	Status
Conduct interviews with process owners to understand and corroborate the key control areas, and confirm the status of related business processes.	<ul style="list-style-type: none"> • Some interviews with process owners have been carried out for the key control areas for pay administration and account verification for non-pay transactions. • Finance and Human Resources within SSC worked together on assurance activities for pay administration following the centralization of pay services at the Public Service Pay Centre, including a self-assessment of minimum controls and an attestation for PWGSC. • SSC also fully implemented a key business process, the post payment review of non-pay transactions to provide assurance of the account verification process.
Based upon the results of the risk assessment and scoping, develop an ICFR assessment plan with refined timelines and expected completion timeframes for the assessment stages for each of the key control areas.	<ul style="list-style-type: none"> • Completed a high-level, multi-year assessment plan covering the next four years, which includes broad timelines (a more detailed plan will be developed with the assistance of professional services).
Undertake the documentation of key processes and controls, and identify gaps that need to be addressed.	<ul style="list-style-type: none"> • This phase of the assessment process will be conducted in later stages, as SSC's action plan was adjusted to focus on other areas, such as the Assessment for ITGCs for IT Infrastructure Services and pay administration services.

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

Building on progress to date, SSC is positioned to complete the assessment of its system of ICFR within the estimated timelines targeted for 2017-2018. At that time, the Department will be applying its rotational ongoing monitoring plan to reassess control performance on a risk basis across all control areas. The status and action plan for the completion of the identified key control areas for the next fiscal year and for subsequent years are shown in the following table.

A key element in the table is the commitment to complete the scoping and risk assessment in 2014-2015. Based on the work done to date, the following controls will be assessed.

- Entity Level Controls;
- ITGCs for SSC's financial system SIGMA (hosted by PWGSC) and relevant feeder systems, such as PeopleSoft (hosted by AAFC); and
- Business Process Controls, such as Financial Close and Reporting, Capital Assets, Payroll, Procure to Payment, and Revenue.

For these controls, a more detailed assessment plan will be developed and presented in SSC's 2014-2015 *Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting*.

**Annex to the Statement of Management Responsibility including Internal Control Over
Financial Reporting - Fiscal Year 2013-2014**

Status and Action Plan for the Next Fiscal Year and Subsequent Years

Assessment Elements	2014-2015	2015-2016	2016-2017	2017-2018
Assessment of design effectiveness of key controls				
Completion of scoping and risk assessment	√			
Documentation of key risks and key controls	√	√		
Testing of design effectiveness of key controls		√	√	
Remediation of key control design effectiveness deficiencies, as required		√	√	
Assessment of operating effectiveness of key controls				
Testing of operating effectiveness of key controls			√	√
Remediation of key control operating effectiveness deficiencies, as required			√	√
On-going monitoring program of the effectiveness of the departmental system of ICFR				√

4.3 Specific actions for 2014-2015

SSC plans to undertake the following:

- Finalize and approve the ICMF;
- Complete procurement activities and implement a contract for professional services;
- Further develop the capacity and expertise of the internal controls team that is coordinating and implementing assessment activities;
- Complete the scoping and risk assessment of key control areas related to Entity Level Controls, IT General Controls, and Business Process Controls;
- Based upon the results of the risk assessment and scoping, develop a more detailed assessment plan with the assistance of professional services; and
- Start the documentation of key processes and controls in accordance with the detailed assessment plan.