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SHARED SERVICES CANADA

Financial Statements

March 31, 2015



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, 2015, 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, 2015 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

Ron Parker
President

Ottawa, Canada
September 1, 2015

Original signed by Camille Therriault-Power for

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)

	<u>2015</u>	<u>2014</u>
Liabilities		
Accounts payable and accrued liabilities (note 4)	412,461	431,036
Vacation pay and compensatory leave	28,473	31,487
Deferred revenue (note 5)	8,092	12,716
Lease obligations for tangible capital assets (note 6)	113,248	29,313
Employee future benefits (note 7)	35,131	29,165
Total liabilities	597,405	533,717
Financial assets		
Due from the Consolidated Revenue Fund	353,649	332,965
Accounts receivable and advances (note 8)	95,170	138,568
Total gross financial assets	448,819	471,533
Financial assets held on behalf of Government		
Accounts receivable and advances (note 8)	(1,216)	(2,388)
Total financial assets held on behalf of Government	(1,216)	(2,388)
Total net financial assets	447,603	469,145
Departmental net debt	149,802	64,572
Non-financial assets		
Prepaid expenses	16,027	27,735
Tangible capital assets (note 9)	494,106	329,927
Total non-financial assets	510,133	357,662
Departmental net financial position	360,331	293,090
Contractual obligations (note 10)		
Contingent liabilities (note 11)		

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

Original signed by

Ron Parker
President

Ottawa, Canada
September 1, 2015

Original signed by Camille Therriault-Power for

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>2015</u>	<u>2015</u>	<u>2014</u>
	Planned Results		
Expenses			
IT Infrastructure Services	1,626,434	1,812,890	1,877,231
Internal Services	<u>203,394</u>	<u>161,630</u>	<u>157,194</u>
Total expenses	1,829,828	1,974,520	2,034,425
Revenues			
Sale of goods and services	430,094	406,083	342,901
Gain on the renewal of the lease obligations for tangible capital assets	-	5,750	-
Miscellaneous revenues	32	107	47
Revenues earned on behalf of Government	<u>(11,755)</u>	<u>(13,878)</u>	<u>(8,146)</u>
Total revenues	418,371	398,062	334,802
Net cost of operations before government funding and transfers	1,411,457	1,576,458	1,699,623
Government funding and transfers			
Net cash provided by Government of Canada		1,578,307	1,593,765
Change in due from the Consolidated Revenue Fund		20,684	65,666
Services provided without charge by other government departments (note 12)		61,034	52,167
Transfer of the transition payments for implementing salary payments in arrears (note 13)		(16,675)	-
Transfer of assets from other government departments for workplace technology devices (note 14)		-	7,350
Transfer of tangible capital assets from other government departments		<u>349</u>	<u>3,166</u>
Net cost of operations after government funding and transfers		(67,241)	(22,491)
Departmental net financial position – Beginning of year		293,090	270,599
Departmental net financial position – End of year		<u>360,331</u>	<u>293,090</u>

Segmented information (note 15)

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>2015</u>	<u>2014</u>
Net cost of operations after government funding and transfers	(67,241)	(22,491)
Change due to tangible capital assets		
Acquisitions of tangible capital assets	298,376	132,701
Amortization of tangible capital assets	(137,270)	(133,689)
Net loss on disposal of tangible capital assets and adjustments	2,724	(26)
Transfers from other government departments	349	6,794
Total change due to tangible capital assets	164,179	5,780
Change due to prepaid expenses	(11,708)	(7,115)
Net increase (decrease) in departmental net debt	85,230	(23,826)
Departmental net debt – Beginning of year	64,572	88,398
Departmental net debt – End of year	149,802	64,572

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>2015</u>	<u>2014</u>
Operating activities		
Net cost of operations before government funding and transfers	1,576,458	1,699,623
Non-cash items:		
Amortization of tangible capital assets	(137,270)	(133,689)
Net loss on disposal of tangible capital assets and adjustments	2,724	(26)
Services provided without charge by other government departments (note 12)	(61,034)	(52,167)
Transition payments for implementing salary payments in arrears (note 13)	16,675	-
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	(42,226)	(41,708)
Increase (decrease) in prepaid expenses	(11,708)	(7,115)
Decrease (increase) in accounts payable and accrued liabilities	18,575	(46,856)
Decrease (increase) in vacation pay and compensatory leave	3,014	(9,154)
Decrease (increase) in deferred revenue	4,624	4,624
Decrease (increase) in employee future benefits	(5,966)	28,366
Transfer of prepaids from other government departments (note 14)	-	(3,722)
Cash used in operating activities	<u>1,363,866</u>	<u>1,438,176</u>
Capital investing activities		
Acquisitions of tangible capital assets (excluding leased tangible capital assets)	181,908	132,701
Cash used in capital investing activities	<u>181,908</u>	<u>132,701</u>
Financing activities		
Payments on lease obligations for tangible capital assets	26,783	22,888
Gain on the renewal of the lease obligations for tangible capital assets	5,750	-
Cash used in financing activities	<u>32,533</u>	<u>22,888</u>
Net cash provided by Government of Canada	<u><u>1,578,307</u></u>	<u><u>1,593,765</u></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 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 partner departments in a consolidated and standardized manner to support the delivery of Government of Canada programs and services. In addition, SSC provides services related to workplace technology devices, and cyber and IT security 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 federal government departments. SSC's mandate was reinforced on June 29, 2012, with the passage of the *Shared Services Canada Act* by Parliament.

SSC's Program Alignment Architecture supports the achievement of the following strategic outcome: *Modern, reliable, secure and cost-effective IT infrastructure services to support government priorities and program delivery.*

SSC's Program Alignment Architecture includes the following programs:

- **Information Technology (IT) Infrastructure Services:** The program delivers IT infrastructure services to federal government departments to enable and support the management, coordination and delivery of government programs to Canadians and the achievement of Government of Canada priorities. The IT infrastructure services consist of four main IT service groups: (a) Distributed Computing; (b) Production and Operations Computing; (c) Telecommunications (Data, Voice and Video); and (d) Cyber and IT Security. This program establishes a centralized common IT infrastructure service leading to consolidation and standardization in the management and delivery of IT infrastructure services across the mandated 43 partner departments. This consolidation and standardization contributes to greater operational efficiencies and economies of scale resulting in forecasted cost-savings, enhanced reliability and security of the IT services, reduction in duplication of effort and managerial oversight, and development of harmonized responses to partner department's business requirements.
- **Internal Services:** Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Office of Audit and Evaluation; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.

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:

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

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 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 “Expenses” and “Revenues” sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2014-15 Report on Plans and Priorities*. Planned results are not presented in the “Government funding and transfers” section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the *2014-15 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 of SSC is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and 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.

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

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 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 and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables 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.

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

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.

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 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>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Net cost of operations before government funding and transfers	1,576,458	1,699,623
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(137,270)	(133,689)
Net loss on disposal of tangible capital assets and adjustments	2,724	(26)
Services provided without charge by other government departments	(61,034)	(52,167)
Decrease (increase) in vacation pay and compensatory leave	3,014	(9,154)
Decrease (increase) in employee future benefits	(6,079)	4,091
Bad debt expense	(5)	-
Refunds and adjustments to previous years' expenses	26,283	16,022
Respendable revenue	4,631	(16,223)
Other	2	9
Total items affecting net cost of operations but not affecting authorities	<u>(167,734)</u>	<u>(191,137)</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets (excluding leased tangible capital assets)	181,908	132,701
Payments on lease obligations for tangible capital assets	26,783	22,888
Transition payments for implementing salary payments in arrears	16,675	-
Increase (decrease) in prepaid expenses	<u>(11,708)</u>	<u>(10,837)</u>
Total items not affecting net cost of operations but affecting authorities	213,658	144,752
Current year authorities used	<u>1,622,382</u>	<u>1,653,238</u>

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

b) Authorities provided and used

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Authorities provided:		
Vote 1 – Operating expenditures	1,306,834	1,406,522
Vote 5 – Capital expenditures	282,891	221,727
Statutory amounts	87,675	90,574
Less:		
Authorities available for future years	-	(9)
Lapsed: Operating expenditures	(18,534)	(42,724)
Lapsed: Capital expenditures	(36,484)	(22,850)
Lapsed: Statutory amounts	-	(2)
Current year authorities used	<u>1,622,382</u>	<u>1,653,238</u>

4. Accounts payable and accrued liabilities

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

	<u>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Accounts payable - Other government departments and agencies	29,714	26,200
Accounts payable - External parties	182,325	193,240
Total accounts payable	<u>212,039</u>	<u>219,440</u>
Accrued liabilities	200,422	211,596
Total accounts payable and accrued liabilities	<u>412,461</u>	<u>431,036</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:

	2015	2014
	<i>(in thousands of dollars)</i>	
Opening balance	12,716	17,340
Revenue recognized	(4,624)	(4,624)
Net closing balance	8,092	12,716

6. Lease obligations for tangible capital assets

SSC has entered into agreements to lease certain computer hardware under capital leases with a cost of \$159 million and accumulated amortization of \$44 million as at March 31, 2015 (\$73 million and \$42 million respectively as at March 31, 2014). The obligations related to the upcoming years include the following:

	2015	2014
	<i>(in thousands of dollars)</i>	
2015	-	20,417
2016	32,140	9,148
2017	30,994	-
2018	30,843	-
2019 and thereafter	20,677	-
Total future minimum lease payments	114,654	29,565
Less: imputed interest (0.65% to 1.3%)	1,406	252
Balance of obligations under leased tangible capital assets	113,248	29,313

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 *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 2014-15 expense amounts to \$58 million (\$64 million in 2013-14). For Group 1 members, the expense represents approximately 1.41 times (1.6 times in 2013-14) the employees' contributions and, for Group 2 members, approximately 1.39 times (1.5 times in 2013-14) 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>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation - Beginning of year	29,165	57,531
Expense for the year	10,454	16,576
Benefits paid during the year	(4,488)	(44,942)
Accrued benefit obligation - End of year	35,131	29,165

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>2015</u>	<u>2014</u>
	<i>(in thousands of dollars)</i>	
Receivables - Other government departments and agencies	88,491	130,564
Receivables – External parties	6,663	7,988
Employee advances	21	23
Subtotal	<u>95,175</u>	<u>138,575</u>
Allowance for doubtful accounts on receivables from external parties	(5)	(7)
Gross accounts receivable and advances	95,170	138,568
Accounts receivable held on behalf of Government	(1,216)	(2,388)
Net accounts receivable and advances	<u>93,954</u>	<u>136,180</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	2015	2014
Buildings	3,085	-	-	-	3,085	2,048	103	-	-	2,151	934	1,037
Works and infrastructure	27	91	1,192	-	1,310	3	10	-	-	13	1,297	24
Machinery and equipment	49,810	2,872	137	-	52,819	28,166	3,790	37	-	31,993	20,826	21,644
Computer hardware	990,953	75,663	6,609	88	1,073,137	758,423	88,897	(247)	88	846,985	226,152	232,530
Computer software	132,123	2,562	451	541	134,595	116,698	10,235	(91)	541	126,301	8,294	15,425
Vehicles	25	-	-	-	25	8	3	-	-	11	14	17
Leasehold improvements	16,815	23	-	-	16,838	4,493	8,288	-	-	12,781	4,057	12,322
Leased tangible capital assets	72,957	116,468	-	30,424	159,001	42,242	25,944	-	24,086	44,100	114,901	30,715
Assets under construction	16,213	100,697	721	-	117,631	-	-	-	-	-	117,631	16,213
Total	1,282,008	298,376	9,110	31,053	1,558,441	952,081	137,270	(301)	24,715	1,064,335	494,106	329,927

Adjustments include assets under construction of \$1.3 million that were transferred to the other categories upon completion of the assets.

During the year, SSC received machinery and equipment, computer hardware and computer software from other government departments with a net book value of \$0.3 million. These transfers are included in the adjustment columns.

The adjustment columns also include a total amount of \$9.1 million related to the capitalization of tangible capital assets that were recorded as expenses in the previous year.

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>	2016	2017	2018	2019	2020 and thereafter	Total
Acquisition of goods and services	424,308	304,479	144,121	163,088	294,408	1,330,404
Total	424,308	304,479	144,121	163,088	294,408	1,330,404

11. Contingent liabilities

Claims have been made against SSC 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. Where it is likely that there will be a future payment and a reasonable estimate of the loss can be made, an allowance for claims and litigations is recorded. No allowance has been recorded in SSC's financial statements. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$2.7 million at March 31, 2015 (\$0 at 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:

	2015	2014
	<i>(in thousands of dollars)</i>	
Employer's contribution to the health and dental insurance plans	43,331	47,697
Accommodation	17,703	4,466
Legal services	-	4
Total	61,034	52,167

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

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

(c) Other transactions with related parties

	2015	2014
	<i>(in thousands of dollars)</i>	
Expenses – Services provided to SSC by other government departments and agencies	237,172	242,488
Revenues – Services provided by SSC to other government departments and agencies	398,036	334,587

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

13. Transfer of the transition payments for implementing salary payments in arrears

The Government of Canada implemented salary payments in arrears in 2014-15. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of the Department. However, it did result in the use of additional spending authorities by the Department. Prior to year end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Works and Government Services Canada, who is responsible for the administration of the Government pay system.

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14. 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:

	<u>2014</u>
	<i>(in thousands of dollars)</i>
Prepaid expenses	3,722
Tangible capital assets (net book value)	3,628
Total assets received	<u>7,350</u>
Adjustment to the departmental net financial position	<u>7,350</u>

Shared Services Canada
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15. 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>	IT Infrastructure Services	Internal Services	2015 Total	2014 Total
Operating expenses				
Salaries and employee benefits	560,581	91,633	652,214	714,958
Telecommunications	453,657	112	453,769	463,270
Rentals	244,307	2,164	246,471	220,703
Professional and special services	171,060	31,817	202,877	203,341
Machinery and equipment	139,828	2,479	142,307	170,541
Amortization of tangible capital assets	131,297	5,973	137,270	133,689
Repairs and maintenance	77,848	6,223	84,071	90,764
Accommodation	15,584	19,734	35,318	15,138
Utilities, materials and supplies	6,786	478	7,264	6,717
Loss on disposal of tangible capital assets	6,338	-	6,338	-
Transportation	3,990	837	4,827	5,814
Interest on capital lease payments	414	-	414	557
Information	169	143	312	809
Other expenses	1,031	37	1,068	8,124
Total operating expenses	1,812,890	161,630	1,974,520	2,034,425
Revenues				
Sale of goods and services	406,082	1	406,083	342,901
Gain on the renewal of the lease obligations for tangible capital assets	5,750	-	5,750	-
Miscellaneous revenues	102	5	107	47
Revenues earned on behalf of Government	(13,873)	(5)	(13,878)	(8,146)
Total revenues	398,061	1	398,062	334,802
Net cost of operations before government funding and transfers	1,414,829	161,629	1,576,458	1,699,623

16. 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, 2015

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting – Fiscal Year 2014-15

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.

Detailed information on the department's authority, mandate and program activities can be found in the [2014-15 Departmental Performance Report](#) and the [2015-16 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 departmental internal control management framework, approved by the President, is in place 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
- Regular monitoring of 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.

2.2 Service arrangements relevant to financial statements

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. PWGSC also administers the Receiver General Centrals Systems used by the department to process treasury-related and salary-related transactions;
- 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.

Specific Arrangements

- PWGSC provides SSC with a SAP financial 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.

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

3. Departmental assessment results during fiscal year 2014-15

The department continued to develop its plan to carry out documentation, design effectiveness testing and operating effectiveness testing for the assessment of Internal Control over Financial Reporting (ICFR) in key control areas consisting of entity-level controls, Information Technology General Controls (ITGCs) and business process controls. Ongoing monitoring of key controls will be implemented following the completion of design and operating effectiveness testing, including the remediation of deficiencies.

3.1 Documentation of key controls

The department undertook the following activities for the assessment of ICFR for SSC:

- A draft Entity Level Control matrix was developed to document key entity level controls;
- A preliminary scoping and risk assessment was conducted to identify key feeder systems that are relevant to SSC's Departmental financial system for the assessment of Information Technology General Controls (ITGCs); and
- A preliminary scoping and risk assessment was conducted to identify key business processes for the assessment of business process controls.

3.2 Design effectiveness testing of key controls

In accordance with the multi-year departmental action plan, design effectiveness testing of key controls is scheduled to commence in future years for the assessment of ICFR for SSC.

3.3 Operating effectiveness testing of key controls

In accordance with the multi-year departmental action plan, operating effectiveness testing of key controls is scheduled to commence in future years.

3.4 Ongoing monitoring of key controls

In accordance with the multi-year departmental action plan, ongoing monitoring of key controls is scheduled to commence in future years.

4. Departmental action plan

As a new department, SSC necessarily focussed on establishing effective governance, standardized business processes and enterprise-wide systems during 2014-15 and previous years. As a more mature department, SSC is better positioned to make progress for the assessment of ICFR going forward. However, progress will be affected by the continuing evolution of SSC's business processes and systems in an environment of significant transformation, such as the development of an electronic procurement and payment system and implementation of the government-wide transformation of pay initiative.

4.1 Progress during fiscal year 2014-15

During 2014-15, SSC continued to make 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.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting – Fiscal Year 2014-15

Progress During Fiscal Year 2014-15

Element in previous year's action plan	Status
Finalize and approve the Internal Control Management Framework (ICMF).	The ICMF was approved by the President and communicated within the department.
Complete procurement activities and implement a contract for professional services.	The department issued a Request for Proposal (RFP) to acquire professional services for the assessment of ICFR for SSC, and commenced the evaluation of proposals.
Further develop the capacity and expertise of the internal controls team that is coordinating and implementing assessment activities.	Resources were added to the Internal Control Team, training was provided, and on-the-job development continued.
Complete the scoping and risk assessment of key control areas related to Entity Level Controls, IT General Controls, and Business Process Controls.	A preliminary scoping and risk assessment was completed.
Based upon the results of the risk assessment and scoping, develop a more detailed assessment plan with the assistance of professional services.	High-level timelines were developed along with the preliminary scoping and risk assessment. A detailed implementation plan will be developed in 2015-16.
Start the documentation of key processes and controls in accordance with the detailed assessment plan.	The department developed a draft Entity Level Control matrix documenting key entity level controls.

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 for most key control areas by 2017-18. At that time, the Department will be applying its risk-based ongoing monitoring plan to reassess control performance in key 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.

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

Key control area	Documentation	Design effectiveness testing and remediation	Operational effectiveness testing and remediation	Ongoing monitoring
Entity-level controls	2015-16	2015-16	2016-17	2016-17
IT general controls (ITGCs) (Note 1)	2016-17	2016-17	2017-18	2017-18
Business process controls (Note 2)	Future years	Future years	Future years	Future years

Notes:

1. This assessment applies to ITGCs over key systems that fall under the responsibility of SSC and impact the financial operations of the department.
2. A preliminary scoping and risk assessment indicates that key business processes include: capital assets; operating expenses and accounts payable; payroll and benefits; revenue and accounts receivable; and financial close and reporting. Key business areas and related timelines will be confirmed on completion of a final scoping and risk assessment and a detailed implementation plan.

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting – Fiscal Year 2014-15

Specific commitments for 2015-16 include the following:

- Award contract for professional services;
- Complete the scoping and risk assessment to confirm key business processes and sub-processes;
- Develop a detailed ICFR assessment plan;
- Complete documentation and design effectiveness testing of key entity level controls; and
- Complete documentation and design effectiveness testing for SSC's ITGC's over SAP financial system.