

# STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010, and all information contained in these statements rests with the management of the Correctional Service Canada (CSC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

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

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

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

An assessment for the year ended March 31, 2010 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of internal control over financial reporting is designed to mitigate risk to a reasonable level and may not prevent or detect misstatements. It is based on an ongoing process designed to identify and prioritize risks and the controls to mitigate these risks.

CSC's financial statements have not been audited.

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Don Head, Commissioner  
Ottawa, Canada  
August 6, 2010

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Liette Dumas-Sluyter, CMA,  
Acting Chief Financial Officer

## STATEMENT OF FINANCIAL POSITION (unaudited)

### CORRECTIONAL SERVICE CANADA

As at March 31

	2010	2009
		<i>Restated</i>
<i>(in thousands of dollars)</i>		<i>(note 15)</i>

### Assets

#### Financial assets

Due from Consolidated Revenue Fund	170,139	253,781
Accounts receivable, advances and loans (note 4)	8,761	27,636
Inventory held for resale (note 5)	10,896	11,892
<i>Total financial assets</i>	<b>189,796</b>	293,309

#### Non-financial assets

Prepaid expenses	1,394	451
Inventory not for resale (note 5)	38,473	35,082
Tangible capital assets (note 6)	1,323,530	1,287,293
<i>Total non-financial assets</i>	<b>1,363,397</b>	1,322,826

<b>Total</b>	<b>1,553,193</b>	<b>1,616,135</b>
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### Liabilities and Equity of Canada

#### Liabilities

Accounts payable and accrued liabilities (note 7)	211,000	291,718
Deferred revenue (note 8)	164	516
Vacation pay and compensatory leave	60,043	58,767
Employee future benefits (note 9)	240,119	267,941
Inmate trust fund (note 10)	16,379	15,524
<i>Total liabilities</i>	<b>527,705</b>	634,466

<b>Equity of Canada (note 14)</b>	<b>1,025,488</b>	<b>981,669</b>
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<b>Total</b>	<b>1,553,193</b>	<b>1,616,135</b>
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Contingent liabilities (note 11)  
Contractual obligations (note 12)

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

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Don Head, Commissioner  
Ottawa, Canada  
August 6, 2010

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Liette Dumas-Sluyter, CMA,  
Acting Chief Financial Officer

## STATEMENT OF OPERATIONS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

	2010				2009	
						<i>Restated (note 15)</i>
<i>(in thousands of dollars)</i>						
	Custody	Correctional Interventions	Community Supervision	Internal Services	Total	Total
<b>Transfer payments</b>						
Non-profit organizations	-	1,164	228	-	<b>1,392</b>	1,522
Individuals	209	-	-	-	<b>209</b>	84
Other countries and international organizations	-	20	-	-	<b>20</b>	80
<b>Total transfer payments</b>	<b>209</b>	<b>1,184</b>	<b>228</b>	<b>-</b>	<b>1,621</b>	<b>1,686</b>
<b>Operating expenses</b>						
Salaries and employee benefits	1,032,930	422,347	117,409	67,066	<b>1,639,752</b>	1,646,613
Professional and special services	83,581	58,137	77,109	43,942	<b>262,769</b>	257,625
Utilities, maintenance and supplies	108,357	9,474	1,715	1,334	<b>120,880</b>	136,726
Amortization of tangible capital assets	80,186	2,229	-	-	<b>82,415</b>	81,206
Repairs and maintenance	64,030	1,243	10	12,011	<b>77,294</b>	97,321
Machinery and equipment	16,250	2,954	92	14,608	<b>33,904</b>	32,187
Travel	9,387	6,969	1,799	14,070	<b>32,225</b>	45,128
Payment in lieu of taxes	27,619	-	-	-	<b>27,619</b>	27,109
Inmate pay	-	21,479	-	-	<b>21,479</b>	23,534
Cost of goods sold	-	15,330	-	-	<b>15,330</b>	15,278
Accommodation	-	-	7,888	6,642	<b>14,530</b>	13,382
Telecommunications	1,463	170	194	10,042	<b>11,869</b>	10,521
Rentals	2,403	1,971	271	6,876	<b>11,521</b>	10,957
Relocation	1,182	616	21	4,043	<b>5,862</b>	5,866
Net loss on disposal of tangible capital assets	529	205	-	(141)	<b>593</b>	402
Other	2,515	3,570	96	2,446	<b>8,627</b>	6,492
<b>Total operating expenses</b>	<b>1,430,432</b>	<b>546,694</b>	<b>206,604</b>	<b>182,939</b>	<b>2,366,669</b>	<b>2,410,347</b>
<b>Total Expenses</b>	<b>1,430,641</b>	<b>547,878</b>	<b>206,832</b>	<b>182,939</b>	<b>2,368,290</b>	<b>2,412,033</b>
<b>Revenues</b>						
Sales of goods and services	1,293	45,639	-	-	<b>46,932</b>	53,356
Other	1,562	683	14	82	<b>2,341</b>	4,090
<b>Total Revenues</b>	<b>2,855</b>	<b>46,322</b>	<b>14</b>	<b>82</b>	<b>49,273</b>	<b>57,446</b>
<b>Net Cost of Operations</b>	<b>1,427,786</b>	<b>501,556</b>	<b>206,818</b>	<b>182,857</b>	<b>2,319,017</b>	<b>2,354,587</b>

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

## STATEMENT OF EQUITY OF CANADA (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

	<b>2010</b>	<b>2009</b>
		<i>Restated</i>
<i>(in thousands of dollars)</i>		<i>(note 15)</i>
<b>Equity of Canada, opening balance</b>	<b>981,669</b>	775,295
Correction of previous years' tangible capital assets (note 15)	-	(11,837)
Correction of previous years' inventory (note 15)	-	11,252
Adoption of new TBAS 1.2 – Opening balance of due from the Consolidated Revenue Fund (note 14)	-	227,387
<b>Equity of Canada, restated opening balance</b>	<b>981,669</b>	1,002,097
Net cost of operations	<b>(2,319,017)</b>	(2,354,587)
Net cash provided by Government	<b>2,314,664</b>	2,180,762
Change in due from the Consolidated Revenue Fund	<b>(83,642)</b>	26,394
Services provided without charge by other Government departments (note 13a)	<b>131,814</b>	127,003
<b>Equity of Canada, closing balance</b>	<b>1,025,488</b>	981,669

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

## STATEMENT OF CASH FLOW (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

(in thousands of dollars)

	2010	2009
<b>Operating activities</b>		
Net cost of operations	2,319,017	2,354,587
<b>Non cash items:</b>		
Amortization of tangible capital assets	(82,415)	(81,206)
Net loss on disposal of tangible capital assets	(593)	(402)
Tangible capital assets adjustments	233	271
Services provided without charge by other Government departments (note 13a)	(131,814)	(127,003)
<b>Variations in statement of financial position:</b>		
Accounts receivable, advances and loans	(18,875)	9,106
Prepaid expenses	943	27
Inventory	2,395	117
Liabilities	106,761	(95,855)
<b>Cash used by operating activities</b>	<b>2,195,652</b>	<b>2,059,642</b>
<b>Capital investment activities</b>		
Acquisitions of tangible capital assets	120,469	121,722
Proceeds from disposal of tangible capital assets	(1,457)	(602)
<b>Cash used by capital investment activities</b>	<b>119,012</b>	<b>121,120</b>
<b>Net cash provided by Government of Canada</b>	<b>2,314,664</b>	<b>2,180,762</b>

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

# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 1. Authority and Objectives

The constitutional and legislative framework that guides the Correctional Service Canada (CSC) is set out by the *Constitution Act 1982* and the *Corrections and Conditional Release Act (CCRA)*.

CSC as part of the criminal justice system and respecting the rule of law contributes to public safety by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure and humane control. It delivers its mandate under four major program activities:

Custody: This program activity ensures that offenders are provided with reasonable, safe, secure and humane custody while serving their sentence. This program activity provides much of the day-to-day needs for offenders in custody including a wide range of activities that address health and safety issues as well as provide basics such as food, clothing, mental health services, and physical health care. It also includes security measures within institutions including drug interdiction, and appropriate control practices to prevent incidents;

Correctional Interventions: This program activity, which occurs in both institutions and communities, are necessary to help bring positive changes in behaviour and to successfully reintegrate offenders. This program activity aims to address problems that are directly related to offenders' criminal behaviour and that interfere with their ability to function as law-abiding citizens. This program activity also includes CORCAN, a Special Operating Agency of Correctional Service Canada, that employs federal offenders for its workforce and, in doing so, provides them with working skills and working habits necessary to compete in the workforce once released from federal custody;

Community Supervision: This program activity ensures eligible offenders are safely reintegrated into communities through the provision of housing and health services, where required, as well as staff supervision for the duration of the offenders sentence. The expected results for this program activity are offenders who are reintegrated into the community as law-abiding citizens while maintaining a level of supervision, which contributes to public safety;

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 the organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel 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.

# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 2. Summary of Significant Accounting Policies

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

**Significant accounting policies are as follows:**

***a) Parliamentary authorities***

CSC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to CSC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

***b) Consolidation***

These consolidated financial statements include the accounts of CSC and those of its revolving fund CORCAN. The accounts of this sub-entity have been consolidated with those of CSC and all inter-organizational balances and transactions have been eliminated.

***c) Net Cash Provided by Government***

CSC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by CSC is deposited to the CRF and all cash disbursements made by CSC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.

***d) Amount due from the Consolidated Revenue Fund (CRF)***

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

# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 2. Summary of Significant Accounting Policies (continued)

#### *e) Revenues*

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

#### *f) 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 accommodation, employer contribution to the health and dental insurance plans, legal services and worker's compensation are recorded as operating expenses at their estimated cost;
- Grants are recognized in the year in which the conditions for payment are met;
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement provided that the transfer is authorized and a reasonable estimate can be made.



# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 2. Summary of Significant Accounting Policies (continued)

#### *g) Employee future benefits*

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

#### *h) Accounts and loans receivable from external parties*

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

#### *i) Contingent liabilities*

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

#### *j) Environmental liabilities*

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

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 2. Summary of Significant Accounting Policies (continued)

### k) Inventories

- Inventory held for resale include raw materials, finished goods, work-in-progress and agribusiness. They belong to the CORCAN revolving fund and are valued at the lower of cost or net realizable value. The department makes provisions for excess and obsolete inventory.
- Inventory not for resale consist of materials and supplies held for future program delivery and is valued at cost. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

### l) 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. CSC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

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

<b>Asset Class</b>	<b>Sub-asset class</b>	<b>Amortization Period</b>
Buildings	Buildings	25 to 40 years
Works and infrastructure	Works and infrastructure	20 to 25 years
Machinery and equipment	Machinery and equipment	10 years
	Informatics hardware	3 to 4 years
	Informatics software	3 to 10 years
	Arms and weapons for defence	10 years
	Other equipment	10 years
Vehicles	Motor vehicles (non-military)	5 years
	Other vehicles	10 years
Leasehold improvements	Leasehold improvements	Term of lease
Assets under construction		Once in service, in accordance with asset class

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.

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 2. Summary of Significant Accounting Policies (continued)

### *m) Measurement uncertainty*

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits 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.

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 3. Parliamentary Authorities

CSC receives most of its funding through annual Parliamentary authorities. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, CSC 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:**

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Net cost of operations	<b>2,319,017</b>	2,354,587
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets	<b>(82,415)</b>	(81,206)
Net loss on disposal of tangible capital assets	<b>(593)</b>	(402)
Services provided without charge by other Government Departments (note 13a)	<b>(131,814)</b>	(127,003)
Variation in vacation pay and compensatory leave	<b>(1,276)</b>	(3,574)
Variation in employee future benefits	<b>27,822</b>	(48,781)
Revenue not available for spending	<b>5,777</b>	8,715
Variation in contingent liabilities	<b>4,443</b>	4,772
Other	<b>201</b>	350
	<b>(177,855)</b>	(247,129)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets	<b>120,469</b>	121,722
Deferred revenue	-	(500)
Inventory	<b>2,395</b>	2,490
Prepaid expenses	<b>1,077</b>	136
	<b>123,941</b>	123,848
<b>Current year authorities used</b>	<b>2,265,103</b>	2,231,306

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 3. Parliamentary Authorities (continued)

#### b) Authorities provided and used:

<i>(in thousands of dollars)</i>	2010	2009
Vote 30 – Operating expenditures	1,900,182	1,884,884
Vote 35 – Capital expenditures	246,800	271,261
Statutory amounts	232,259	215,362
	<b>2,379,241</b>	<b>2,371,507</b>
Less:		
Authorities available for future years	10,704	9,802
Lapsed authorities: Operating	56,991	57,130
Lapsed authorities: Capital	46,443	73,269
<b>Current year authorities used</b>	<b>2,265,103</b>	<b>2,231,306</b>

### 4. Accounts Receivable, Advances and Loans

The following table presents details of accounts receivable, advances and loans:

<i>(in thousands of dollars)</i>	2010	2009
Receivables from other Government departments and agencies	4,540	22,634
Receivables from external parties	5,716	6,344
Employee advances	256	412
Parolee loans and advances to individuals other than employees	3	102
	<b>10,515</b>	<b>29,492</b>
Allowance for doubtful accounts on receivables from external parties and parolee loans	(1,754)	(1,856)
<b>Total</b>	<b>8,761</b>	<b>27,636</b>

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

#### 5. Inventory

The following table presents details of the inventory, measured at the lower of cost or net realizable value:

<i>(in thousands of dollars)</i>	2010	2009
Inventory held for resale		
Raw materials	5,060	5,349
Work in progress	309	517
Finished goods	5,886	6,184
Agribusiness	227	767
	11,482	12,817
Provision for obsolete inventory	(586)	(925)
Total inventory held for resale	10,896	11,892
Inventory not for resale		
Supplies	13,956	11,352
Clothing	11,595	13,834
Building materials	4,884	3,988
Utilities	4,742	1,335
Other	3,296	4,573
Total inventory not for resale	38,473	35,082
<b>Total</b>	<b>49,369</b>	<b>46,974</b>

The cost of consumed inventory recognized as an expense in the Statement of Operations is \$60,848,709 in 2009-2010 (\$61,218,239 in 2008-2009).

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 6. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	Cost					Accumulated Amortization				Net Book Value	
	Opening balance <i>Restated</i> <i>(note 15)</i>	Acquisitions	Disposals and adjustments	Transfers of assets under construction	Closing balance	Opening balance	Amortization	Disposals and adjustments	Closing balance	2010	2009 <i>Restated</i> <i>(note 15)</i>
Land	12,467	-	-	-	12,467	-	-	-	-	<b>12,467</b>	12,467
Buildings	1,528,431	-	(1,020)	8,508	1,535,919	635,832	46,655	(138)	682,349	<b>853,570</b>	892,599
Works and infrastructure	433,036	-	1,692	1,628	436,356	293,908	17,700	(1)	311,607	<b>124,749</b>	139,128
Machinery and equipment	222,677	26,366	(7,950)	-	241,093	114,568	12,661	(7,488)	119,741	<b>121,352</b>	108,109
Vehicles	52,559	6,412	(5,763)	-	53,208	28,954	4,916	(4,924)	28,946	<b>24,262</b>	23,605
Leasehold improvements	2,792	-	-	11,930	14,722	824	483	-	1,307	<b>13,415</b>	1,968
Assets under construction	109,417	87,691	(1,327)	(22,066)	173,715	-	-	-	-	<b>173,715</b>	109,417
<b>Total</b>	<b>2,361,379</b>	<b>120,469</b>	<b>(14,368)</b>	<b>-</b>	<b>2,467,480</b>	<b>1,074,086</b>	<b>82,415</b>	<b>(12,551)</b>	<b>1,143,950</b>	<b>1,323,530</b>	1,287,293

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

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 7. Accounts Payable and Accrued Liabilities

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

	2010	2009 <i>Restated (note 15)</i>
<i>(in thousands of dollars)</i>		
Accounts payable to other Government departments and agencies	55,128	47,817
Accounts payable to external parties	86,132	92,022
	141,260	139,839
Contingent liabilities (note 11)	10,203	14,646
Accrued liabilities	59,537	137,233
<b>Total</b>	<b>211,000</b>	<b>291,718</b>

## 8. Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties which are restricted to fund the expenditures related to specific projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

<i>(in thousands of dollars)</i>	2010	2009
Opening balance	516	16
Amounts received	3,950	6,341
Revenue recognized	(4,302)	(5,841)
<b>Ending balance</b>	<b>164</b>	<b>516</b>

## 9. Employee Future Benefits

### a) Pension Benefits:

CSC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.



## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 9. Employee Future Benefits (continued)

Both the employees and CSC contribute to the cost of the Plan. The 2009-2010 expense amounts to \$164,466,302 (\$145,132,226 in 2008-2009), which represents approximately 1.9 times (2.0 in 2008-2009) the contributions by employees.

CSC'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:**

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

<i>(in thousands of dollars)</i>	2010	2009
Accrued benefit obligation, opening balance	267,941	219,160
Expenses for the year	(10,554)	65,741
Benefits paid during the year	(17,268)	(16,960)
<b>Accrued benefit obligation, closing balance</b>	<b>240,119</b>	<b>267,941</b>

## 10. Inmate Trust Fund

Pursuant to section 111 of the *Corrections and Conditional Release Regulations*, the Inmate Trust Fund is credited with moneys received from inmates at the time of incarceration, net of earnings of inmates from employment inside institutions, moneys received for inmates while in custody, moneys received from sales of hobbycraft, moneys earned through work while on day parole, and interest. Payments to assist in the reformation and rehabilitation of inmates are also charged to this account.

<i>(in thousands of dollars)</i>	2010	2009
Opening balance	15,524	14,306
Receipts	40,689	40,867
Disbursements	(39,834)	(39,649)
<b>Closing balance</b>	<b>16,379</b>	<b>15,524</b>

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 11. Contingent Liabilities

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

### a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where CSC is obligated or likely to be obligated to incur such costs. CSC has identified approximately 60 sites (76 in 2008-2009) where such action is possible and for which a liability of \$9,176,768 (\$13,492,696 in 2008-2009) has been recorded in accrued liabilities. CSC has estimated additional clean-up costs of \$5,856,000 (\$5,970,000 in 2008-2009) that are not accrued, as these are not considered likely to be incurred at this time. CSC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by CSC in the year in which they become likely and are reasonable estimable.

### b) Claims and litigations

Claims have been made against CSC in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. Based on CSC's assessment, legal proceedings for claims estimated at \$1,026,500 (\$1,153,500 in 2009) were pending at March 31, 2010. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

## 12. Contractual Obligations

The nature of the CSC's activities can result in some large multi-year contracts and obligations whereby the department will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2011	2012	2013	2014	2015 and thereafter	Total
Acquisition of others goods and services	10,944	10,944	4,704	2,623	2,623	31,838

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 13. Related Party Transactions

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

#### **a) Common services provided without charge by other Government departments:**

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

	2010	2009 <i>Restated (note 15)</i>
<i>(in thousands of dollars)</i>		
Accommodation	<b>14,530</b>	13,382
Employer's contribution to the health and dental insurance plans	<b>108,980</b>	105,595
Legal services	<b>2,618</b>	2,225
Workers' compensation	<b>5,686</b>	5,801
<b>Total</b>	<b>131,814</b>	127,003

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

#### **b) Other transactions with related parties**

<i>(in thousands of dollars)</i>	2010	2009
Expenses – Other Government departments and agencies	<b>343,876</b>	325,056
Revenues – Other Government departments and agencies	<b>29,074</b>	38,740

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

#### 14. Adoption of New Accounting Policies

During the year, CSC adopted the revised Treasury Board accounting policy TBAS 1.2: Departmental and Agency Financial Statements which is effective for the 2010-2011 fiscal year. However, early adoption was encouraged by Treasury Board Secretariat. The major change in CSC's accounting policies required by the adoption of the revised TBAS 1.2 is the recording of amounts due from the Consolidated Revenue Fund as an asset on the Statement of Financial Position.

The adoption of the new Treasury Board accounting policy has been accounted for retroactively with the following impact on comparatives for 2009-2010:

<i>(in thousands of dollars)</i>	2009 As previously stated	Effect of changes	2009 Restated
<b>Statement of Financial Position</b>			
Assets	1,362,939	253,781	1,616,720
Equity of Canada	728,473	253,781	982,254

#### 15. Restatement of Previous Year's Balances

In 2009-2010, CSC continued to review its tangible capital assets balances. The review highlighted an overstatement of tangible capital assets in our balance sheet. As a result, an adjustment to equity for \$11,837,287 was made.

In addition, an adjustment of \$11,252,254 was made to equity for an understatement of the inventory not for resale due to a miscalculation of the inventory at March 31, 2009.

#### 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

## CORRECTIONAL SERVICE CANADA

### SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2009-2010 AND THE ACTION PLAN OF CORRECTIONAL SERVICE CANADA

#### NOTE TO THE READER

With the new Treasury Board Policy on Internal Control, effective April 1, 2009, large departments are now required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their Statements of Management Responsibility a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement;
- Applicable laws, regulations and policies are complied with.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The maintenance of an effective system of ICFR is an ongoing process designed to identify and prioritize risks and the controls to mitigate these risks, as well as to monitor its performance in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to the other based on risks and taking into account their unique circumstances.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

### 1. INTRODUCTION

This document is attached to Correctional Service Canada's (CSC) Statement of Management Responsibility Including Internal Control over Financial Reporting for the fiscal year 2009-2010. As required by the new Treasury Board Policy on Internal Control, effective April 1, 2009, for the first time, this document provides summary information on the measures taken by CSC to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by CSC as at March 31, 2010, including progress, results and related action plans along with some financial highlights relevant to understanding the control environment unique to the department.

#### 1.1. Authority, Mandate and Program Activities

Detailed information on CSC's authority, mandate and program activities can be found in the Departmental Performance Report and Report on Plans and Priorities.

#### 1.2. Financial Highlights

In addition to these financial statements (unaudited), other information can also be found in the Public Accounts of Canada.

- Total expenses were \$2,368 million (\$2,412 million in 2008-2009). Salaries and employee benefits expenses represent the majority of expenses with 69% or \$1,640 million (68% or \$1,647 million in 2008-2009). CSC has approximately 15,400 employees. Expenses per program activity were as follows:
  - Custody: 60% or \$1,430 million (68% or \$1,645 million in 2008-2009);
  - Correctional Interventions: 23% or \$548 million (22% or 535 million in 2008-2009);
  - Community Supervision: 9% or \$207 million (10% or 232 million in 2008-2009);
  - Internal Services: 8% or \$183 million (prior to 2009-2010, costs were reallocated to other program activities);
- Total revenues were \$49 million (\$57 million in 2008-2009) and stem mostly from the sales of goods and services;
- Tangible capital assets represent 85% or \$1,324 million of departmental total assets (80% or \$1,287 million in 2008-2009).

CSC has a strong regional presence. There are decentralized finance and accounting functions in each of the regions which initiates, approves, processes and/or records operating transactions.

Finally, CSC has several information systems which are critical to its operations and financial reporting.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

### 1.3. Service Arrangements Relevant to Financial Statements

CSC relies on other organizations for the processing of certain transactions recorded in its financial statements:

- Public Works and Government Services Canada centrally administers the payments of salaries and benefits, the procurement of goods and services, as well as the provision of accommodations on our behalf;
- Treasury Board Secretariat provides CSC with information used to calculate various accruals and allowances, such as the accrued severance liability;
- Legal services are provided by the Department of Justice Canada.

### 1.4 Significant Changes in Fiscal-Year 2009-2010

In 2009-2010, there were no significant operational changes affecting the financial statements. Some legislations are currently in different stages in Parliament which could impact CSC's operations in future years.

## 2. CSC CONTROL ENVIRONMENT RELEVANT TO ICFR

CSC recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and is well equipped to exercise these responsibilities effectively. CSC's focus is to ensure risks are well-managed through a responsive, risk-based and efficient control environment which enables continuous improvement and innovation.

### 2.1. Key Positions, Roles and Responsibilities

CSC has key positions and committees responsible for maintaining and reviewing the effectiveness of its system of ICFR.

**Commissioner** – The Commissioner, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Commissioner chairs the Departmental Audit Committee and the Executive Committee.

**Chief Financial Officer (CFO)** – The CFO reports directly to the Commissioner and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

**Senior Departmental Managers** – Senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR within their mandate.

**Chief Audit Executive (CAE)** – The CAE reports directly to the Commissioner and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

**Departmental Audit Committee (DAC)** - The DAC is an advisory committee that provides objective advice and recommendations to the Commissioner regarding the sufficiency, quality and results of assurance on the adequacy and functioning of CSC's risk management, control and governance frameworks and processes. The DAC, established in 2006, includes the Commissioner, the Senior Deputy Commissioner and three external members.

## 2.2. Key Measures taken by CSC

CSC's control environment also includes a series of measures to equip its staff to manage risks appropriately by raising awareness, providing knowledge and tools, as well as developing skills. Key measures include:

- CSC code of conduct and values and ethics code;
- A dedicated division under the CFO on internal financial control (IFC);
- Annual performance agreements with clearly defined financial management responsibilities;
- Training programs and communications in core areas of financial management;
- Departmental policies tailored to CSC's control environment;
- Regularly updated delegated authorities matrix;
- Documentation of business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- Information Technology processing systems to achieve greater security, integrity, efficiency and effectiveness;
- Participation in two inter-departmental forums: Departmental Financial Statements Forum and Policy on Internal Controls where ideas and best practices are shared among participating departments.



# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

### 3. ASSESSMENT OF CSC'S SYSTEM OF ICFR

#### 3.1 Assessment Baseline

In 2004, the Government launched an initiative to determine the ability of departments to sustain control-based audits of their financial statements, thus placing reliance on well functioning internal controls. As a result, since 2006, the largest departments, including CSC, are formalizing their approach to managing their systems of ICFR, including readiness assessments and action plans.

Whether it is to support control-based audits or meet the requirements of the Policy on Internal Control, in both cases, departments need to be able to maintain an effective system of ICFR with the objectives to provide reasonable assurances that transactions are appropriately authorized, financial records are properly maintained, assets are safeguarded and applicable laws, regulations and policies are complied with.

In doing so, departments are assessing design and operating effectiveness of their system of ICFR as well as have in place an on-going monitoring program to sustain and continuously improve their departmental system of ICFR.

Design effectiveness means to ensure that key control points are identified, documented, in place and that they are aligned with the risks (i.e. controls are balanced with and proportionate to the risks they aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location, as applicable.

Operating effectiveness means that key controls have been tested over a defined period and that any remediation is addressed.

On-going monitoring program means that a systematic integrated approach to monitoring is in place, including periodic risk-based assessments and timely remediation.

#### 3.2 Approach to CSC's Assessment

In preparation for a control-based audit, CSC had its internal financial controls reviewed in 2006. This assessment indicated that documentation of its entity level and general computerized controls could be enhanced. It also revealed that having standardized national business processes would be greatly beneficial. Following those observations, CSC initially focussed on the documentation and standardization of its business processes. A review of business processes was completed in order to identify the ones that are most significant based on materiality and level of risk.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

In accordance with this strategy and the Policy on Internal Control, CSC has developed a multi-year plan to assess its system of ICFR. For each significant business processes, CSC is gathering information on current practice, documentation, risks and controls relevant to ICFR, including appropriate policies and procedures; maps business processes with the identification and documentation of key risk and control points on the basis of materiality, volumes, complexity, geographic dispersion, susceptibility to losses/frauds, areas subject to audit observations, past history, external attention, and reliance on third-party; issues national and standardized business processes for implementation; designs key control testing approach and methodology; selects statistical sample transactions for key controls assessment; and assesses operational effectiveness of key controls.

Currently, CSC has reviewed and standardized business processes, including key control identification, for salaries (pay verification), travel, allowance for doubtful accounts, hospitality and CSC/CORCAN intradepartmental transactions.

## 4. CSC ASSESSMENT RESULTS

As the result of the assessment approach described above, CSC developed baseline architecture of all key control points by accounts and key business processes.

By documenting and standardizing business processes and key controls, CSC is also addressing the design effectiveness which is the prerequisite to testing operating effectiveness.

### 4.1 Design Effectiveness of Key Controls

As explained earlier, based on process risk analysis, CSC is identifying key controls to be tested as business processes are being standardized and documented. Every risk is aligned with a or a group of key controls. After issuing each standardized business processes, processing sites have a transition period to adopt and change their practices to comply with the new standardized process. This transition period varies depending of the complexity and anticipated level of change a newly issued standardized business process requires.

After the transition period, CSC verifies whether the standardized business process is implemented, corresponds to new practices and internal controls are followed. If necessary, remediation requirements are addressed. These activities are conducted at each transaction processing site, including National Headquarters, Regional Headquarters and institutions.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

### 4.2 Operating Effectiveness of Key Controls

As at year-end 2009-2010, CSC has completed the testing of operating effectiveness of the salaries, travel and allowance for doubtful accounts processes. The results are as follows:

#### **a) Salaries**

Salaries transactions are categorized into three separate groups:

- High risk transactions include taken on strength, leave cash out and severance pay. Transactions of this category are all reviewed before being processed;
- Medium risk transactions include allowances and premiums, overtime, retroactive, acting and promotion pay, as well as employees with timesheets. Transactions of this category are reviewed using a monthly post-audit approach based on a sample of transactions selected nationally;
- Low risk transactions include all other salary transactions. This review is performed using a national sample of transactions for which controls were tested.

For the operating effectiveness testing, a sample of transactions from the three salary categories was selected to ensure controls are being applied. Testing of those transactions has revealed a need to improve the documentation in order to demonstrate that all required supporting information has been collected and all key controls have been applied. Testing also identified a requirement to clarify some roles and responsibilities. As a result, CSC has developed an action plan for 2010-2011 to address these issues.

#### **b) Travel**

Based on risk, high risk travel transactions are fully reviewed before being processed while low risk transactions have to sustain few internal controls before being processed. There is no medium risk category and the internal control process has no provision for post-audit review.

A sample of travel transactions was selected to assess controls operating effectiveness. Testing has revealed a need to improve the documentation in order to demonstrate that all key controls have been applied. The review has also identified a requirement to improve the following: reconciliation process of travel approvals with the transportation expenses (air and train), the use of blanket travel authorities and the recording of travel information in the financial system. As a result, CSC has developed an action plan for 2010-2011 to address these issues.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

### **c) Allowance for doubtful accounts**

Based on the nature of this account, all regional allowance for doubtful accounts assessments were reviewed as of March 31, 2010. Operating effectiveness testing has revealed that internal financial controls are being applied.

## **4.3 On-going Monitoring Program**

CSC will continue to monitor its internal financial controls for the salaries, travel and allowance for doubtful accounts processes as part of its on-going monitoring program. As progress occurs in completing business process documentation, design, and operating effectiveness testing of the processes, CSC will seek opportunities to identify, analyze and document its general computerized and entity level controls.

This analysis will help CSC maximize the benefits of relying on computerized controls and ensuring that there is a well-integrated monitoring program in place which raises awareness and understanding of the department's system of ICFR at all levels, equips people with the knowledge, skills and tools needed and reinforces appropriate behaviours.

## **5. CSC ACTION PLAN**

### **5.1 Progress as of March 2010**

During 2009-2010, CSC has continued to make significant progress in assessing and improving its key controls.

CSC has completed the following work:

- Established a plan to address issues identified in the initial internal controls assessment;
- Established an Internal Financial Controls group;
- Documented and issued the national standardized business processes for salaries, travel, allowance for doubtful accounts, hospitality and the CSC/CORCAN intradepartmental transactions. This includes identifying key controls and mapping them to respective identified risks;
- Strengthened and communicated the importance of the Internal Financial Controls Initiative by making presentations to specific functional groups, Regional Management Committees, as well as the Commissioner Management Team;
- Started the review of operating effectiveness controls for selected business processes.

# ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

CSC has substantially advanced work in the following areas:

- Documenting the tangible capital assets and amortization business processes;
- Reviewing the tangible capital assets count approach;
- Reviewing the tangible capital assets recording threshold, the application of standards for capitalization of projects and related eligible expenses.

## 5.2 Action Plan for the Coming Years

CSC recognizes the need to be able to maintain an effective system of ICFR and continues on the plan developed after the initial IFC review.

By the end of 2010-2011, CSC plans to:

- Continue to strengthen the importance of the Internal Financial Controls Initiative across the department;
- Update CSC's Internal Financial Controls Initiative work plan;
- Assess the requirements for the implementation of the tangible capital assets and amortization standardized processes;
- Undertake the review and standardization of documentation of other significant business processes.

For the following years, CSC plans to:

- Review, document and standardize the remaining significant business processes, including identifying key controls, and implementation strategies;
- Evaluate and address entity-level and general computerized controls;
- Monitor operating effectiveness of key controls as documented in the general testing plan including periodic and risk-based retesting of selected key controls.