

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, 2012, 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 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 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 (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 CSC and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2012 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of CSC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of CSC's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Commissioner.

The financial statements of CSC have not been audited.

Signed by

Anne Kelly, Acting Commissioner
Ottawa, Canada
August 29, 2012

Signed by

Liette Dumas-Sluyter, CMA, CIA
Chief Financial Officer

STATEMENT OF OPERATIONS AND ORGANIZATIONAL NET FINANCIAL POSITION (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

<i>(in thousands of dollars)</i>	2012 Planned Results (note 2a)	2012	2011 Restated (note 16)
Expenses			
Custody	1,897,670	1,507,453	1,497,991
Correctional Interventions	621,577	607,140	530,769
Community Supervision	184,991	128,019	112,476
Internal Services	379,650	411,506	374,410
Expenses incurred on behalf of Government	-	(80)	(49)
Total expenses	3,083,888	2,654,038	2,515,597
Revenues			
Sales of Goods and Services	45,346	60,253	52,858
Miscellaneous Revenues	2,851	3,036	3,018
Revenues earned on behalf of Government	(3,678)	(4,309)	(4,323)
Total revenues	44,519	58,980	51,553
Net cost of operations before government funding and transfers	3,039,369	2,595,058	2,464,044
Government funding and transfers			
Net cash provided by Government		2,692,038	2,337,652
Change in due from Consolidated Revenue Fund		(3,387)	36,110
Services provided without charge by other government departments (note 13)		150,834	136,906
Transfers of assets and liabilities to other government departments (note 14)		(3,448)	(274)
Transfers of assets and liabilities from other government departments (note 14)		44	-
Net cost of operations after government funding and transfers		(241,023)	(46,350)
Organizational net financial position – Beginning of year		1,070,426	1,024,076
Organizational net financial position – End of year		1,311,449	1,070,426

Segmented information (note 15)

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

STATEMENT OF CHANGE IN ORGANIZATIONAL NET DEBT (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

2012

2011

(in thousands of dollars)

Net cost of operations after government funding and transfers	(241,023)	(46,350)
Change due to tangible capital assets		
Acquisition of tangible capital assets	280,899	157,874
Amortization of tangible capital assets	(83,414)	(85,663)
Proceeds from disposal of tangible capital assets	(1,393)	(1,339)
Net (loss) or gain on disposal of tangible capital assets including adjustments	2,308	(1,373)
Transfer to other government departments (note 14)	(8,426)	(274)
Transfer from other government departments (note 14)	44	-
<i>Total change due to tangible capital assets</i>	190,018	69,225
Change due to inventories	(199)	(1,741)
Change due to prepaid expenses	(162)	(1,152)
Net increase (decrease) in organizational net debt	(51,366)	19,982
Organizational net debt – Beginning of year	359,303	339,321
Organizational net debt – End of year	307,937	359,303

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

	2012	2011 Restated (note 16)
<i>(in thousands of dollars)</i>		
Operating activities		
Net cost of operations before government funding and transfers	2,595,058	2,464,044
Non-cash items		
Amortization of tangible capital assets	(83,414)	(85,663)
Net loss on disposal of tangible capital assets	(59)	(2,345)
Tangible capital assets adjustments	2,367	972
Services provided without charge by other government departments (note 13)	(150,834)	(136,906)
Variations in Statement of Financial Position		
Increase in accounts payable and accrued liabilities	(34,666)	(22,436)
Increase in deferred revenue	(547)	(49)
Increase in vacation pay and compensatory leave	(3,354)	(171)
Decrease (increase) in employee future benefits	68,827	(31,964)
Increase in inmate trust fund	(280)	(961)
Increase in accounts receivable, advances and loans	20,989	2,525
Decrease in prepaid expenses	(162)	(1,152)
Increase (decrease) in inventory	3,585	(4,777)
Transfer of other assets to other government departments (note 14)	49	-
Transfer of liabilities to other government departments (note 14)	(5,027)	-
Cash used in operating activities	2,412,532	2,181,117
Capital investment activities		
Acquisitions of tangible capital assets	280,899	157,874
Proceeds from disposal of tangible capital assets	(1,393)	(1,339)
Cash used in capital investment activities	279,506	156,535
Net cash provided by Government of Canada	2,692,038	2,337,652

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 (such as providing 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 security incidents;

Correctional Interventions: This program activity, occurs in both institutions and communities, and is 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 members of society. This program activity also includes CORCAN, a Special Operating Agency of Correctional Service Canada, that employs federal offenders as 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, and 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 are not 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 using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

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 Organizational Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations and Organizational Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2011-12 Report on Plans and Priorities. The future-oriented financial statements for 2011-2012 have been restated to reflect the revenues net of non-respendable amounts and expenses net of those incurred on behalf of government. This restatement resulted in a \$3,678,000 increase in net costs of operations before government funding and transfers. In addition, the future-oriented financial statements have also been reclassified to conform to the current year presentation.

b) Consolidation

These consolidated financial statements include the accounts of the sub-entity that the Commissioner is accountable for, which is CSC's 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) 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 authorities 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 organization 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.
- Revenues that are non-responsible are not available to discharge CSC's liabilities. While the Commissioner is expected to maintain accounting control, he or she has no authority regarding the disposition of non-responsible revenues. As a result, non-responsible revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

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;
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.

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. CSC's contributions to the Plan are charged to expenses in the year incurred and represent the total organizational obligation to the Plan. 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.
- 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.

h) Accounts and loans receivable from external parties

Accounts and loans receivables are stated at the lower of cost and net recoverable value. However, when the terms of the loans are concessionary, such as those provided with a low or no interest clause, they are recorded at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the loans outstanding. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for accounts and loans receivable where recovery is considered uncertain.

i) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future event(s) 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.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

2. Summary of Significant Accounting Policies (continued)

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.

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 organization 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:

Asset Class	Sub-Asset Class	Amortization Period
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	5 to 10 years
Leasehold improvements	Leasehold improvements	Term of lease

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

2. Summary of Significant Accounting Policies (continued)

l) Tangible capital assets (continued)

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.

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 areas 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 Organizational Net Financial Position and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, 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>	2012	2011 Restated (note 16)
Net cost of operations before government funding and transfers	2,595,058	2,464,044
<i>Adjustments for items affecting net cost of operations but not affecting authorities (net of Shared Services Canada transfer):</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets	(83,414)	(85,663)
Net loss on disposal of tangible capital assets	(59)	(2,345)
Services provided without charge by other government departments (note 13a)	(150,834)	(136,906)
Increase in vacation pay and compensatory leave	(3,704)	(171)
Increase in obligation for termination benefits (note 4)	(55,149)	-
Decrease (Increase) in employee future benefits	67,452	(31,964)
Decrease (increase) in environmental liabilities and other provisions	4,758	(1,698)
Revenue not available for use	8,686	16,993
Other	285	823
	(211,979)	(240,931)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets	280,899	157,874
Increase in deferred Revenues	(547)	(49)
Increase (Decrease) in inventory	3,585	(4,777)
Decrease in prepaid expenses	(162)	(1,152)
	283,775	151,896
Current year authorities used	2,666,854	2,375,009

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

3. Parliamentary Authorities (continued)

b) Authorities provided and used

	2012	2011
<i>(in thousands of dollars)</i>		
Vote 25 – Operating expenditures	2,372,542	1,985,892
Vote 30 – Capital expenditures	567,552	337,311
Statutory amounts	254,425	236,487
	3,194,519	2,559,690
Less:		
Authorities available for future years	8,057	16,101
Lapsed authorities: Operating	297,383	54,117
Lapsed authorities: Capital	222,225	114,463
Current year authorities used	2,666,854	2,375,009

4. Accounts Payable and Accrued Liabilities

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

	2012	2011
<i>(in thousands of dollars)</i>		
Accounts payable to other government departments and agencies	45,337	61,851
Accounts payable to external parties	94,847	86,763
	140,184	148,614
Contingent liabilities	7,143	11,901
Accrued liabilities	120,774	72,921
Total	268,101	233,436

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, CSC has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$55,149,153 as part of accrued liabilities to reflect the estimated workforce adjustment costs.

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

5. 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:

	2012	2011
<i>(in thousands of dollars)</i>		
Opening balance	213	164
Amounts received	9,714	2,286
Revenue recognized	(9,167)	(2,237)
Ending balance	760	213

6. 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.

Both the employees and CSC contribute to the cost of the Plan. The 2011-2012 expense amounts to \$174,230,891 (\$161,394,807 in 2010-2011), which represents approximately 1.8 times (1.9 in 2010-2011) 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 salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

6. Employee Future Benefits (continued)

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

	2012	2011
<i>(in thousands of dollars)</i>		
Accrued benefit obligation, opening balance	272,083	240,119
Transferred to other government departments effective November 15, 2011 (note 14)	(1,451)	-
Expenses for the year	48,655	51,089
Benefits paid during the year	(116,031)	(19,125)
Accrued benefit obligation, closing balance	203,256	272,083

7. 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. Disbursements may occur either at the time of release or for inmate purchases in line with rehabilitation programs.

	2012	2011
<i>(in thousands of dollars)</i>		
Opening balance	17,340	16,379
Receipts	44,394	42,604
Disbursements	(44,114)	(41,643)
Closing balance	17,620	17,340

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

8. Accounts Receivable, Advances and Loans

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

	2012	2011 Restated (note 16)
<i>(in thousands of dollars)</i>		
Receivables from other government departments and agencies	27,027	6,564
Receivables from external parties	7,051	6,241
Employee advances	321	339
Parolee loans and advances to individuals other than employees	161	15
	34,560	13,159
Allowance for doubtful accounts on receivables from external parties and parolee loans	(1,859)	(1,774)
Gross accounts receivable	32,701	11,385
Accounts receivable held on behalf of Government	(1,839)	(1,511)
Net accounts receivable	30,862	9,874

9. Inventory

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

	2012	2011
<i>(in thousands of dollars)</i>		
Inventory held for resale		
Raw materials	6,007	4,706
Work in progress	785	161
Finished goods	5,599	3,557
Agribusiness	-	44
	12,391	8,468
Provision for obsolete inventory	(747)	(608)
Total inventory held for resale	11,644	7,860

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

9. Inventory (continued)

<i>(in thousands of dollars)</i>	2012	2011
Inventory not for resale		
Supplies	15,371	13,933
Clothing	11,033	11,728
Building materials	4,294	4,632
Utilities	1,545	1,669
Other	4,290	4,770
Total inventory not for resale	36,533	36,732
Total	48,177	44,592

The cost of consumed inventory recognized as an expense in the Statement of Operations and Organizational Net Financial Position is \$193,850,192 in 2011-2012 (\$193,783,851 in 2010-2011).

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

10. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	Cost					Accumulated Amortization					Net Book Value	
	Opening balance	Acquisitions	Disposals and Write-off	Adjustments (1)	Closing balance	Opening balance	Amortization	Disposals and write-off	Adjustments (1)	Closing balance	2012	2011
Land	14,824	-	-	-	14,824	-	-	-	-	-	14,824	14,824
Buildings	1,563,831	-	(2,340)	21,214	1,582,705	728,518	47,615	(1,985)	-	774,148	808,557	835,313
Works and infrastructure	433,562	-	(77)	1,125	434,610	322,308	16,059	(77)	-	338,290	96,320	111,254
Machinery and equipment	254,670	27,864	(7,893)	(23,986)	250,655	120,657	11,440	(7,279)	(18,595)	106,223	144,432	134,013
Vehicles	53,741	7,828	(5,756)	(97)	55,716	27,637	6,549	(4,893)	18	29,311	26,405	26,104
Leasehold improvements	16,712	-	(17)	-	16,695	4,206	1,751	(6)	-	5,951	10,744	12,506
Assets under construction	258,741	245,207	-	(22,457)	481,491	-	-	-	-	-	481,491	258,741
Total	2,596,081	280,899	(16,083)	(24,201)	2,836,696	1,203,326	83,414	(14,240)	(18,577)	1,253,923	1,582,773	1,392,755

(1) Adjustments include assets under construction of \$20,590,726 that were transferred to the other categories upon completion of the assets.

Effective November 15, 2011, CSC transferred machinery and equipment with a net book value of \$8,425,657 to Shared Services Canada. This transfer is included in the adjustment columns (refer to note 14a for further details on this transfer).

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 42 sites (59 in 2010-2011) where such action is possible and for which a liability of \$5,640,983 (\$9,244,357 in 2010-2011) has been recorded in accrued liabilities. CSC has estimated additional clean-up costs of \$771,000 (\$6,755,500 in 2010-2011) 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 reasonably 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 others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. CSC has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$1,650,000 (\$1,965,000 in 2010-2011) at March 31, 2012.

12. Contractual Obligations

The nature of the CSC's activities can result in some large multi-year contracts and obligations whereby the organization 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>	2013	2014	2015	2016	2017 and thereafter	Total
Acquisition of goods and services	24,196	22,193	22,503	10,051	796	79,739

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 services 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 and Organizational Net Financial Position as follows:

<i>(in thousands of dollars)</i>	2012	2011
Employer's contribution to the health and dental insurance plans	127,393	113,916
Accommodation	16,303	15,481
Workers' compensation	5,361	5,452
Legal services	1,777	2,057
Total	150,834	136,906

The Government has centralized some of its administrative activities for efficient, cost-effective, 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 and audit services provided by the Office of the Auditor General, are not included in CSC's Statement of Operations and Organizational Net Financial Position.

b) Other transactions with related parties

<i>(in thousands of dollars)</i>	2012	2011
Expenses – Other government departments and agencies	367,002	344,032
Revenues – Other government departments and agencies	39,846	30,733

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

14. Transfers from/to other government departments

a) Transfer to Shared Services Canada

Effective November 15, 2011, CSC transferred responsibility for the control and supervision of email, data centres and networks to Shared Services Canada (SSC) in accordance with Order-in-Council 2011-1297, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, CSC transferred the following assets and liabilities related to these activities to SSC on November 15, 2011:

	2012
<i>(in thousands of dollars)</i>	
<hr/>	
Assets:	
Tangible capital assets (net book value) (note 10)	(8,426)
Accounts receivable	(46)
Other assets	(3)
Total assets transferred	(8,475)
<hr/>	
Liabilities:	
Accounts payables and accrued liabilities	3,196
Vacation pay and compensatory leave	380
Employee future benefits (note 6)	1,451
Total liabilities transferred	5,027
<hr/>	
Adjustment to the organizational net financial position:	(3,448)
<hr/>	

The operating results of the transferred activities, prior to November 15, 2011, were not disclosed in the Statement of Operations and Organizational Net Financial Position as the financial data could not be established at the cost of a reasonable effort.

During the transition period, which is after November 15, 2011, CSC continued to administer the transferred activities on behalf of SSC. The administered expenses amounted to \$16,663,109 for the year. These expenses are not recorded in these financial statements.

b) Transfers from (to) other government departments

	2012	2011
<i>(in thousands of dollars)</i>		
<hr/>		
Assets:		
Tangible capital assets (net book value) (note 10)	44	(274)
Total assets transferred	44	(274)
<hr/>		
Adjustment to the organizational net financial position:	44	(274)
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NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

15. Segmented Information

Presentation by segment is based on the Organization's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major objects of expense and by major types of revenue. The segment results for the period are as follows:

	2012				Total	2011
	Custody	Correctional Interventions	Community Supervision	Internal Services		Restated (note 16)
						Total
<i>(in thousands of dollars)</i>						
Transfer payments						
Non-profit organizations	-	1,036	216	-	1,252	1,333
Individuals	232	-	-	-	232	147
Total transfer payments	232	1,036	216	-	1,484	1,480
Operating expenses						
Salaries and employee benefits	1,082,329	476,913	28,256	308,103	1,895,601	1,760,973
Professional and special services	105,101	58,211	87,135	37,909	288,356	278,621
Utilities, maintenance and supplies	114,605	9,000	1,976	8,205	133,786	134,118
Amortization of tangible capital assets	81,294	2,120	-	-	83,414	85,663
Repairs and maintenance	56,869	1,053	9	10,875	68,806	67,929
Machinery and equipment	20,913	3,626	54	7,239	31,832	37,928
Travel	10,280	8,773	1,240	14,102	34,395	31,340
Payment in lieu of taxes	28,606	-	-	-	28,606	28,929
Inmate pay	-	23,022	-	-	23,022	22,261
Cost of goods sold	-	16,941	-	-	16,941	17,431
Accommodation	-	-	8,617	7,686	16,303	15,481
Telecommunications	1,047	85	77	5,043	6,252	11,551
Rentals	9,002	2,187	202	3,864	15,255	14,964
Relocation	1,449	849	14	6,098	8,410	6,277
Net loss on disposal of tangible capital assets	13	102	-	(55)	60	2,345
Other	(4,287)	3,222	223	2,437	1,595	(1,645)
Total operating expenses	1,507,221	606,104	127,803	411,506	2,652,634	2,514,166
Sub-Total Expenses	1,507,453	607,140	128,019	411,506	2,654,118	2,515,646
Expenses incurred on behalf of Government	-	-	-	(80)	(80)	(49)
Total Expenses	1,507,453	607,140	128,019	411,426	2,654,038	2,515,597
Revenues						
Sales of goods and services	1,273	58,980	-	-	60,253	52,858
Miscellaneous Revenues	2,252	683	6	95	3,036	3,018
Revenues earned on behalf of Government	(3,525)	(683)	(6)	(95)	(4,309)	(4,323)
Total Revenues	-	58,980	-	-	58,980	51,553
Net Cost from continuing operations	1,507,453	548,160	128,019	411,426	2,595,058	2,464,044

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

CORRECTIONAL SERVICE CANADA

For the year ended March 31

16. Accounting changes

During 2011, amendments were made to *Treasury Board Accounting Standard 1.2 – Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to the Organization's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-2011 has been restated.

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

Revenue and related accounts receivable are now presented net of non-respendable amounts in the Statement of Operations and Organizational Net Financial Position and Statement of Financial Position. The effect of this change was to increase the net cost of operations after government funding and transfers by \$4,229,377 for 2012 (\$4,273,742 for 2011) and decrease total financial assets by \$1,838,782 for 2012 (\$1,510,934 for 2011).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments are now recognized in the Statement of Operations and Organizational Net Financial Position below "Net cost of operations before government funding and transfers." In previous years, the Organization recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by \$2,859,197 for 2012 (\$2,510,394 for 2011).

<i>(in thousands of dollars)</i>	2011	Effect of change	2011
	As previously stated		Restated
Statement of Financial Position:			
Liabilities held on behalf of Government	-	-	-
Assets on behalf of Government	-	(1,511)	(1,511)
Organizational financial position	1,071,937	(1,511)	1,070,426
Statement of Operations and Organizational Net Financial Position:			
Revenues	55,876	(4,323)	51,553
Expenses	2,515,646	(49)	2,515,597
Government funding and transfers:			
Net cash provided by Government		2,337,652	2,337,652
Change in due from Consolidated Revenue Fund		36,110	36,110
Services provided without charge by other government departments		136,906	136,906
Transfer of assets and liabilities from/to other government departments		(274)	(274)

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2011-2012 AND THE ACTION PLAN OF CORRECTIONAL SERVICE CANADA

NOTE TO THE READER

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

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, 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; and
- Applicable laws, regulations and policies are complied with.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are 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 to support continuous improvement. As a result, the scope, pace and status of departmental assessments of the effectiveness of systems of ICFR will vary from one organization to the other, based on identified risks and any unique circumstances.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

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 2011-2012. As required by the Treasury Board Policy on Internal Control, 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, 2012, including progress, results and related action plans along with some financial highlights relevant to understanding the control environment unique to the organization.

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*.

- CSC expenses were \$2,654 million (\$2,515 million in 2010-2011). Salaries and employee benefits expenses represent the majority of expenses at 71% or \$1,896 million (70% or \$1,761 million in 2010-2011). CSC has approximately 18,613 employees. Expenses by program activity were as follows:
 - Custody: 57% or \$1,507 million (60% or \$1,498 million in 2010-2011);
 - Correctional Interventions: 23% or \$607 million (21% or \$531 million in 2010-2011);
 - Community Supervision: 5% or \$128 million (4% or \$112 million in 2010-2011);
 - Internal Services: 15% or \$412 million (15% or \$374 million in 2010-2011);
- Total revenues were \$59 million (\$52 million in 2010-2011) and represent the sales of goods and services by CSC's revolving fund (CORCAN);
- Tangible capital assets represent 82% or \$1,583 million of organizational total assets (84% or \$1,393 million in 2010-2011).

CSC has a strong regional presence. There are decentralized finance and accounting functions in each of the regions that initiate, approve, process and/or record operating transactions.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

1.3. Service Arrangements Relevant to Financial Statements

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

- Public Works and Government Services Canada centrally administers, on behalf of CSC, the payment of salaries and benefits, the procurement of goods and services, the provision of accommodations and cheque issuance services;
- The Treasury Board Secretariat provides CSC with information used to calculate various accruals and allowances, such as the accrued severance liability and the Employee Benefit Plan (EBP), and pays the employer's contribution to the health and dental insurance plans;
- Shared Services Canada (SSC) was created on August 4, 2011 to consolidate, streamline and improve the government's information technology (IT) infrastructure services, specifically email, data centre and network services for 43 federal departments and agencies. Effective November 15, 2011, the responsibility for email, data centre and network services, including associated resources, was transferred from CSC to SSC. The administration and delivery of these services were shared during the 2011-2012 transition period while SSC was being established;
- Human Resources And Skills Development Canada provides Worker's Compensation assessment services; and
- Legal services are provided by the Department of Justice Canada.

1.4 Significant Changes in Fiscal-Year 2011-2012

In 2011-2012, there were no significant operational changes affecting the financial statements.

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 that enables continuous improvement and innovation.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

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 an annual assessment.

Senior Organizational Managers – Senior organizational managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of systems 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 framework 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's Standards of Professional Conduct and Code of Discipline;
- CSC's Code of Values developed and approved by the Executive Committee;
- A dedicated division under the CFO on internal financial control (IFC);
- Annual performance agreements with clearly established financial management responsibilities expectations;

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

- Training programs and communications in core areas of financial management;
- Organizational policies tailored to CSC's control environment;
- Regularly updated delegated authorities matrix;
- Fraud-risk assessment that will help focus ICFR efforts;
- Documentation of business processes and related key risk and control points to support the management and oversight of the system of ICFR;
- Enhancement to the Information Technology processing systems to achieve greater security, integrity, efficiency and effectiveness. This includes a major upgrade, completed in 2011-2012, to CSC's Integrated Financial and Material Management System;
- Participation in inter-departmental forums including the Policy on Internal Control Working Group where ideas and best practices are shared among participating departments.

3. ASSESSMENT OF CSC'S SYSTEM OF ICFR

3.1 Assessment Approach

In support of the *Policy on Internal Control*, departments must be able to maintain an effective system of ICFR to provide reasonable assurance that:

- Transactions are appropriately authorized
- Financial records are properly maintained
- Assets are safeguarded
- Applicable laws, regulations and policies are complied with

In order to provide this assurance, departments are expected to assess the design and operating effectiveness of their system of ICFR and have in place an ongoing monitoring program to maintain 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 financial accounts by location, as applicable.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

Operating effectiveness means that key controls have been tested over a defined period and that any necessary remedial action is undertaken.

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

IFCR testing covers all departmental control levels which include corporate or entity, information technology general computer controls and business process controls.

3.2 Assessment Scope

In proceeding with its implementation of the *Policy on Internal Control*, CSC has taken measures to assess its system of ICFR starting with its financial statements. CSC's focus continues to be on its significant accounts with an emphasis on the significant business processes within those accounts.

An account is determined to be significant if it can contain errors of audit importance based upon its materiality and/or relationship to identified business and financial statement risks. Tolerable error is used to identify significant accounts and any account balance exceeding the tolerable error amount is automatically considered significant. For accounts with a value lower than the tolerable error amount, accounting risks and the level of complexity of the accounts is also considered.

Significant business processes are identified as any major process where significant classes of transactions are initiated, recorded, processed and/or reported. All significant processes are linked to the analysis of a significant account.

A review of business processes was completed in order to identify the ones that are most significant based on risk (materiality, volumes and complexity of transactions, geographic dispersion, susceptibility to losses/frauds, areas subject to audit observations, past history, external attention and reliance on third-parties). In accordance with the *Policy on Internal Controls*, CSC developed a multi-year plan to assess its system of ICFR for the following seventeen business processes where the priority was set in accordance with the risk assessment made¹:

- Salaries
- Travel
- Hospitality
- CSC/CORCAN Intradepartmental Transactions
- Departmental Bank Accounts
- Interdepartmental Settlements

¹ The risk assessment is reviewed annually based on current financial data and other relevant information.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

- Procurement / Contracting
- Payables / Payments
- Tangible Capital Assets / Amortization
- Financial Statement Close
- Inmate Trust Fund
- Inventory
- Assets Under Construction
- Reconciliations / GL Adjustments
- Sales / Receivables / Receipts (including the allowance for doubtful accounts)
- Contingent Liabilities
- Environmental Liabilities

For each significant business process, CSC has and will continue to map out the business processes with the identification and documentation of key risk and control points; test the design effectiveness and operating effectiveness of the key controls; and take corrective measures to remediate any weaknesses identified at either the design or operating effectiveness stages.

The documentation and assessment of the design effectiveness of key process controls has been substantially completed for the Procurement/Contracting, Payables/Payment and Tangible capital assets / Amortization processes.

CSC's assessment of operating effectiveness in 2011-2012 covered the pre-payment verification performed at NHQ and in the regions for high-risk salary transactions, the post-payment verification performed for medium-risk salary transactions and the hospitality process. Assessments had been completed in previous years for key controls in the salary, travel and allowance for doubtful accounts processes. These processes represent over 70% of CSC's total expenditures.

CSC is committed to documenting and assessing its information technology General Controls and Entity Level Controls including the Budgeting and Forecasting processes.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

4. CSC ASSESSMENT RESULTS

4.1 Design Effectiveness of Key Controls

In 2010-2011, CSC reported on the salaries, travel, allowance for doubtful accounts, hospitality and CSC/CORCAN interdepartmental transactions processes. In 2011-2012, CSC has substantially advanced the documentation and assessment of the design effectiveness of key controls for the following business processes:

- Procurement/Contracting
- Payables/Payment
- Tangible Capital Assets
- Amortization

CSC has identified corrective measures within the procurement, payables and payments and tangible capital assets processes. The implementation will be completed by the end of 2012-2013.

4.2 Operating Effectiveness of Key Controls

As at year-end 2011-2012, CSC has completed the operating effectiveness testing of the pre-payment verification of high risk salary transactions, the post-payment verification of medium-risk salary transactions and the hospitality process. CSC continues to build on the work and reviews performed in previous years in order to ensure controls are being applied and business processes are kept up to date. The results are as follows:

Salaries (medium and high-risk transactions)

A sample of transactions was selected to ensure the controls (pre and post-payment verification) were being applied. The testing results demonstrated that in order to ascertain the effectiveness of the key control CSC should continue to clarify the roles and responsibilities of financial officers and pay advisors.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

Testing has also revealed that, for some transactions, there is a need to improve the documentation in order to demonstrate payments were properly authorized. Some immediate remediation measures were implemented and action plan is being developed for 2012-2013 to address the remaining issues.

Hospitality

A sample of hospitality transactions was tested by the Internal Audit Branch to assess the operating effectiveness of the controls. Testing has revealed that internal controls are generally applied. However, some areas were identified as needing improvement such as evidence supporting the performance of the key controls and the pre-approval of hospitality expenses. A management action plan for 2011-2012 was developed to address these issues and remediation measures will be in place before the end of 2012-2013.

4.3 On-going Monitoring Program

As part of the on-going monitoring program, CSC, with the support of the Internal Audit Branch, will continue to assess internal financial controls for the business processes where the operating effectiveness of key controls and remediation actions have been completed. This will help CSC ensure there is a well-integrated and comprehensive monitoring program in place that raises awareness and understanding of the department's system of ICFR at all levels, provide staff with the knowledge, skills and tools needed, and reinforce appropriate behaviours.

5. CSC ACTION PLAN

5.1 Progress as of March 2012

Consistent with the 2011-2012 plan, CSC has continued to make progress in assessing and improving its key controls.

CSC has completed the following work:

- Continued strengthening awareness of the importance of the Internal Financial Controls Initiative across the organization;
- Updated the Internal Financial Controls Initiative work plan (including operating effectiveness testing in cooperation with the Internal Audit Branch);
- Issued the updated Departmental Bank Account business process documentation;

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

- Reviewed, for all regions the operating effectiveness testing of the pre-payment verification of high-risk pay transactions and the post-payment verification of medium-risk pay transactions;
- Issued an updated Hospitality Directive;
- Issued a Contracting Financial Directive to clarify roles and responsibilities to ensure compliance with legislation and policies relating to contracting, including a comprehensive review of the contract approval process for all contracts over \$10,000;
- Launched new e-learning modules for travel, hospitality, Government Acquisition Card and the Designated Responsibility Centre Travel Card that provide a single, integrated training tool for quick reference to related areas of finance policy, procedures, processes, required forms and/or systems/applications and their associated controls;
- Enhanced monitoring procedures introduced in the procurement area;
- Upgraded the organization's financial system which provided an opportunity to improve the quality of the organization's training documentation; and
- Fraud-risk assessment to help focus future efforts.

CSC has also substantially advanced work in the following areas:

- Review and update of the account verification directive and the travel, pay and hospitality verification directives;
- Documentation and assessment of the design effectiveness of the Procurement to Payment business processes;
- Documentation and assessment of the design effectiveness of the Tangible Capital Assets / Amortization business processes ;
- Implementation of remediation plans established following internal audit's operating effectiveness testing for the salary, travel and hospitality processes; and
- Update of the Financial Signing Authorities Delegation Instrument.

5.2 Action Plan for the Next Year and Future Years

CSC recognizes the need to be able to maintain an effective system of ICFR and continues to build on the progress made to date on the assessment of its system of ICFR.

CSC will continue its progress to substantially advance and/or complete the remedial actions, which were identified in 2011-2012, through the assessments of the design and operating effectiveness of key controls.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)

CORRECTIONAL SERVICE CANADA

As required, new remedial action plans will be established following the completion of the following assessments:

- Entity Level controls
- IT general controls
- Procure to Payment
- Tangible Capital Assets / Amortization
- Financial statement close
- Reconciliations and GL adjustments
- Interdepartmental settlements

The Directives for Account Verification and the Verification of Hospitality, Pay and Travel expenditures will be issued.

CSC will also complete the assessment of its salary process against the common government-wide financial management pay administration guideline.

An audit of internal controls over financial reporting for the salary process will be conducted to assess the adequacy of the management control framework with regard to internal controls over financial reporting.

As of December 31, 2012, Departmental Bank Accounts will no longer be in use, as the Receiver General will no longer be supporting this method of payment. A new process will be implemented and CSC will ensure that key controls are in place as it is being developed.

CSC's assessment plan for subsequent years				
Control Level	Document	Design Effectiveness	Operating Effectiveness	On-going monitoring
Entity-level controls (including Budgeting and Forecasting process)	2012-2013	2013-2014	2014-2015	TBD
Information Technology General Controls				
IFMMS	2012-2013	2013-2014	2014-2015	TBD
Business Processes				
Salaries (all key controls)	Completed	Completed	2012-2013	TBD
Travel	Completed	Completed	2012-2013	2013-2014

**ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY
INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (unaudited)**

CORRECTIONAL SERVICE CANADA

CSC's assessment plan for subsequent years (continued)				
Control Level	Document	Design Effectiveness	Operating Effectiveness	On-going monitoring
Hospitality	Completed	Completed	2012-2013	2013-2014
CSC/CORCAN Intradepartmental Transactions	Completed	Completed	2013-2014	2014-2015
Departmental Bank Accounts	Completed	Completed	Completed	TBD
Interdepartmental Settlements	2012-2013	2012-2013	2013-2014	2014-2015
Procurement/Contracting	2012-2013	2012-2013	2013-2014	TBD
Payables/Payments	2012-2013	2012-2013	2013-2014	TBD
Tangible Capital Assets	2012-2013	2013-2014	2013-2014	TBD
Amortization	2012-2013	2013-2014	2014-2015	TBD
Financial Statement close	2012-2013	2013-2014	2014-2015	TBD
Inmate Trust Fund	2014-2015	2014-2015	2015-2016	TBD
Inventory	2013-2014	2013-2014	2014-2015	TBD
Assets Under Construction	2012-2013	2013-2014	2013-2014	TBD
Reconciliations/GL Adjustments	2012-2013	2013-2014	2014-2015	TBD
Sales/Receivables/Receipts	2013-2014	2014-2015	2014-2015	TBD
Allowance for doubtful Accounts	Completed	Completed	Completed	2012-2013
Contingent Liabilities	2013-2014	2014-2015	2014-2015	TBD
Environmental Liabilities	2014-2015	2014-2015	2015-2016	TBD
TBD – To be determined				
IFMMS – Integrated Financial and Material Management System				