

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2012, and all information contained in these statements rests with the management of Health Canada. These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

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

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

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

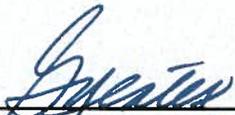
The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

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

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

Management is supported by the Departmental Audit Committee, which ensures that the Deputy Minister has independent and objective advice, guidance and assurance as to the adequacy of risk management, control and accountability processes. The Departmental Audit Committee is chaired by a member external to the Government and includes the Deputy Minister, the Associate Deputy Minister, and three other external members.

The financial statements of Health Canada have not been audited.



Glenda Yeates
Deputy Minister
Ottawa, Canada
Date: Aug 28, 2012



Jamie Tibbetts
Chief Financial Officer
Ottawa, Canada
Date: Aug 28/12

HEALTH CANADA

Statement of Financial Position (Unaudited)

As at March 31

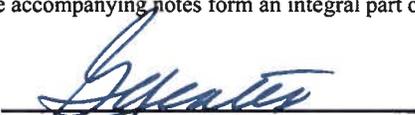
(in thousands of dollars)

	2012	2011 Restated (note 14)
Liabilities		
Accounts payable and accrued liabilities (note 4)	\$ 363,360	\$ 306,741
Vacation pay and compensatory leave	37,537	40,879
Deferred revenue	3,603	1,495
Employee future benefits (note 5)	143,217	176,675
Other liabilities (note 6)	529,185	585,483
Total gross liabilities	1,076,902	1,111,273
Liabilities held on behalf of Government		
Deferred revenue	(27)	(32)
Total liabilities held on behalf of Government	(27)	(32)
Total net liabilities	1,076,875	1,111,241
Financial assets		
Due from Consolidated Revenue Fund	217,890	271,557
Accounts receivable and advances (note 7)	39,846	27,836
Total gross financial assets	257,736	299,393
Financial assets held on behalf of Government		
Accounts receivable and advances (note 7)	(8,736)	(4,518)
Total financial assets held on behalf of Government	(8,736)	(4,518)
Total net financial assets	249,000	294,875
Departmental net debt	827,875	816,366
Non-financial assets		
Prepaid expenses	12,400	19,200
Tangible capital assets (note 8)	136,988	159,108
Total non-financial assets	149,388	178,308
Departmental net financial position	\$ (678,487)	\$ (638,058)

Contractual obligations (note 9)

Contingent liabilities (note 10)

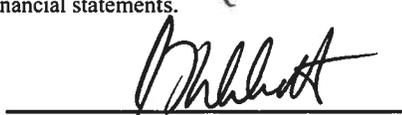
The accompanying notes form an integral part of these financial statements.


Glenda Yeates

Deputy Minister

Ottawa, Canada

Date: Aug 28/12


Jamie Tibbetts

Chief Financial Officer

Ottawa, Canada

Date: Aug 28/12

HEALTH CANADA

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2012 Planned Results	2012	2011 Restated (note 14)
Expenses			
A health system responsive to the needs of Canadians	\$ 375,200	\$ 363,078	\$ 364,826
Canadians are informed of and protected from health risks associated with food, products, substances and environments, and are informed of the benefits of healthy eating	651 996	743,074	674,869
First Nations and Inuit communities and individuals receive health services and benefits that are responsive to their needs so as to improve their health status	2,188,687	2,420,510	2,388,613
Internal services	308,339	394,380	326,661
Expenses incurred on behalf of Government	(73)	(763)	(259)
Total expenses	3,524,149	3,920,279	3,754,710
Revenues			
Sales of goods and services			
Services of a regulatory nature	52,572	41,984	33,746
Rights and privileges	51,216	46,002	24,950
Services of a non-regulatory nature	23,439	22,845	23,337
Lease and use of public property	-	300	223
Revenues from fines	-	2,848	2,609
Interest	193	250	356
Other	1,969	4,420	5,540
Revenues earned on behalf of Government	(16,319)	(20,493)	(16,294)
Total revenues	113,070	98,156	74,467
Net cost from continuing operations	3,411,079	3,822,123	3,680,243
Transferred operations (note 12)			
Expenses	40,429	35,273	60,502
Net cost of transferred operations	40,429	35,273	60,502
Net cost of operations before government funding and transfers	3,451,508	3,857,396	3,740,745
Government funding and transfers			
Net cash provided by Government	3,257,889	3,755,300	3,761,103
Change in due from Consolidated Revenue Fund	6,421	(53,667)	(58,585)
Services provided without charge by other government departments (note 11)	121,513	134,966	130,008
Transfer of assets and liabilities to Shared Services Canada (note 12)	-	(16,543)	-
Transfers of assets and liabilities from (to) other government departments (note 8)	-	(3,089)	-
Net cost of operations after government funding and transfers	65,685	40,429	(91,781)
Departmental net financial position - Beginning of year	(568,897)	(638,058)	(729,839)
Departmental net financial position - End of year	\$ (634,582)	\$ (678,487)	\$ (638,058)

Segmented information (note 13)

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

HEALTH CANADA

Statement of Change in Departmental Net Debt (*Unaudited*)

For the Year Ended March 31

(in thousands of dollars)

	2012 Planned Results	2012	2011
Net cost of operations after government funding and transfers	\$ 65,685	\$ 40,429	\$ (91,781)
Change due to tangible capital assets			
Acquisition of tangible capital assets	30,043	33,084	33,960
Amortization of tangible capital assets	(24,819)	(29,997)	(29,940)
Proceeds from disposal of tangible capital assets	-	(419)	(120)
Net (loss) or gain on disposal of tangible capital assets including adjustments	(2,062)	(1,154)	(1,956)
Transfer to Shared Services Canada	-	(20,545)	-
Transfer to other government departments	-	(3,089)	-
Total change due to tangible capital assets	3,162	(22,120)	1,944
Change due to prepaid expenses	-	(6,800)	4,200
Net increase (decrease) in departmental net debt	68,847	11,509	(85,637)
Departmental net debt - Beginning of year	735,990	816,366	902,003
Departmental net debt - End of year	\$ 804,837	\$ 827,875	\$ 816,366

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

HEALTH CANADA

Statement of Cash Flows (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	2012	2011
		Restated (note 14)
Operating activities		
Net cost of operations before government funding and transfers	\$ 3,857,396	\$ 3,740,745
Non-cash items:		
Amortization of tangible capital assets	(29,997)	(29,940)
Gain (loss) on disposal of tangible capital assets	(1,154)	(1,956)
Services provided without charge by other government departments (note 11)	(134,966)	(130,008)
Variations in Statement of Financial Position:		
Decrease (increase) in accounts payable and accrued liabilities	(56,619)	56,679
Decrease (increase) in vacation pay and compensatory leave	3,342	1,589
Decrease (increase) in deferred revenue	(2,113)	90
Decrease (increase) in employee future benefits	33,458	(5,847)
Decrease (increase) in other liabilities	56,298	92,498
Increase (decrease) in accounts receivable and advances	7,792	(787)
Increase (decrease) in prepaid expenses	(6,800)	4,200
Transfer of liabilities to Shared Services Canada (note 12)	(4,002)	-
Cash used in operating activities	3,722,635	3,727,263
Capital investing activities		
Acquisition of tangible capital assets	33,084	33,960
Proceeds from disposal of tangible capital assets	(419)	(120)
Cash used in capital investing activities	32,665	33,840
Net cash provided by Government of Canada	\$ 3,755,300	\$ 3,761,103

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

**Notes to the Financial Statements (*Unaudited*)
For the Year Ended March 31, 2012**

1. Authority and objectives

The Department of Health was established effective July 12, 1996 under the *Department of Health Act* to participate in the promotion and preservation of the health of the people of Canada. It is named in Schedule 1 of the *Financial Administration Act* and reports through the Minister of Health. Priorities and reporting are aligned under the following strategic outcomes and related program activities:

Strategic Outcome 1: A health system responsive to the needs of Canadians

Canadians expect their governments to provide a health system that meets their needs and that delivers results effectively and efficiently. In addition to ensuring that it meets specific federal responsibilities, such as health services for federal employees and during international events held in Canada, Health Canada works with provincial and territorial governments as well as health organizations and other stakeholder groups to address the health objectives of Canadians. Research and policy analysis, support and funding to test innovations in health service delivery and monitoring of provincial and territorial application of the *Canada Health Act* all lead to continuing improvement in Canada's health system.

Program Activities:

- Canadian health system
- Specialized health services
- Official language minority community development

Strategic Outcome 2: Canadians are informed of and protected from health risks associated with food, products, substances and environments, and are informed of the benefits of healthy eating

This Strategic Outcome seeks to ensure that the food that Canadians eat and products they use are as safe as possible and that threats to health are addressed effectively. It helps increase Canadians' understanding of factors that influence everyone's health such as environmental conditions and nutrition. It helps to limit the use and abuse of tobacco and illicit drugs.

Program Activities:

- Health products
- Food safety and nutrition
- Environmental risks to health
- Consumer products safety
- Substance use and abuse
- Radiation protection
- Pesticide safety

Strategic Outcome 3: First Nations and Inuit communities and individuals receive health services and benefits that are responsive to their needs so as to improve their health status

This Strategic Outcome seeks to ensure that First Nations and Inuit living on reserve or in Inuit communities have access to health services as well as a limited range of medically necessary health-related goods and services not provided through private insurance plans, provincial/territorial health or social programs or other publicly funded programs. It seeks to reduce the gap in health outcomes between First Nations and Inuit and the Canadian population in general.

Program Activities:

- First Nations and Inuit primary health care
- Supplementary health benefits for First Nations and Inuit
- Health infrastructure support for First Nations and Inuit

Internal services

Health Canada has a range of internal services. Some, such as financial, administrative, real property, security, human resources, information management and Information Technology, provide the basic infrastructure that enables the Department to function while ensuring compliance to new and existing central agency policies. Other internal services in Health Canada address departmental and Health Portfolio needs such as general communications and policy activities, as well as managing relations with Parliamentarians, the Cabinet system and other government departments and levels of government. An additional set of internal service roles centre on critical departmental and government-wide responsibilities, such as ensuring the best value for Canadians through planning, accountability and tracking performance and results.

**Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2012****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

The Department of Health is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and the Statement of Operations and Departmental Net Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2011-12 Report on Plans and Priorities*.

The future-oriented financial statements for 2011-12 have been restated to reflect the revenue and expenses net of non-respendable amounts. This restatement resulted in a \$16.2 million increase in net costs of operations before government funding and transfers. In addition, the future-oriented financial statements have also been reclassified to conform to the current year presentation.

(b) Net cash provided by Government

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

(c) Amounts due from the Consolidated Revenue Fund

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 the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

(d) Revenues

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year;
- 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 related expenses are incurred;
- 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;
- Revenues that are non-respendable are not available to discharge the Department's liabilities. While the Department Head (DH) is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

2. Summary of significant accounting policies (continued)**(e) Expenses**

Expenses are recorded on the accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment;
- Services provided without charge by other government departments for accommodation, employer contribution to health and dental insurance plans, legal services and workers' compensation are recorded as operating expenses at their estimated cost.

(f) Employee future benefits

- i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- ii) Severance benefits: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(g) Accounts receivable

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

(h) Contingent liabilities

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

(i) 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 the Department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the Department'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)
For the Year Ended March 31, 2012

2. Summary of significant accounting policies (continued)

(j) 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. Health Canada 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 years
Works and infrastructure	Works and infrastructure	25 years
Leasehold improvements	Leasehold improvements	Lease term, max. 40 years
Machinery and equipment	Machinery and equipment	8-12 years
	Computer equipment	3-5 years
	Computer software	3 years
	In-house developed software	5 years
	Other equipment	5-12 years
Vehicles	Motor vehicles	4-7 years
	Other vehicles	10 years
Assets under construction	Buildings in progress of construction	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.
	Engineering works in progress of construction	
	Work in progress for software	
	Other construction or work in progress	

(k) Prepaid expenses

Prepaid expenses include prepayments of transfer payments. Prepaid transfer payments consist of amounts advanced to recipients as of March 31 for which it is known that the costs will be incurred by the recipient in the subsequent fiscal year and the amount can be readily determined based on available information.

(l) 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, the allowance for doubtful accounts 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.

HEALTH CANADA

Notes to the Financial Statements (*Unaudited*) For the Year Ended March 31, 2012

3. Parliamentary authorities

Health Canada receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Financial Position and the Statement of Operations and Departmental Net Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used:

(in thousands of dollars)	2012	2011
		Restated (note 14)
Net cost of operations before government funding and transfers	\$ 3,857,396	\$ 3,740,745
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
Amortization of tangible capital assets	(29,997)	(29,940)
Gain (loss) on disposal of tangible capital assets	(1,150)	(1,195)
Services provided without charge by other government departments	(134,966)	(130,008)
Decrease (increase) in vacation pay and compensatory leave	3,200	1,589
Decrease (increase) in employee future benefits	29,598	(5,847)
Refund/adjustment of previous year's expenditures	36,435	51,145
Bad debt expense	(3,650)	(2,472)
Decrease (increase) in transfer payment accrual	3,356	66
Workforce adjustment measures	(65,142)	-
Other	(23,054)	(1,545)
Total items affecting net cost of operations but not affecting authorities	3,672,026	3,622,538
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
Disbursement to Canada Health Infoway Inc.	87,881	91,838
Acquisitions of tangible capital assets	33,084	33,960
Proceeds from disposal of Crown assets	109	42
Increase (decrease) in prepaid expenses	(6,800)	4,200
Net change to accountable advances	-	(3)
Total items not affecting net cost of operations but affecting authorities	114,274	130,037
Current year authorities used	\$ 3,786,300	\$ 3,752,575

(b) Authorities provided and used:

(in thousands of dollars)	2012	2011
<i>Authorities provided:</i>		
Vote 1 - Operating expenditures	\$ 2,130,078	\$ 2,050,284
Vote 5 - Capital expenditures	35,096	40,081
Vote 10 - Grants and contributions	1,536,543	1,542,740
Statutory amounts	225,664	226,529
<i>Less:</i>		
Authorities available for future years	(332)	(163)
Lapsed authorities	(140,749)	(106,896)
Current year authorities used	\$ 3,786,300	\$ 3,752,575

HEALTH CANADA

Notes to the Financial Statements (Unaudited) For the Year Ended March 31, 2012

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)		2012		2011
Accounts payable - external parties	\$	153,724	\$	143,236
Accounts payable - other government departments and agencies		11,005		19,082
Total accounts payable		164,729		162,318
Accrued liabilities		198,631		144,423
Total accounts payable and accrued liabilities	\$	363,360	\$	306,741

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 2012-13. As a result, the Agency has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$65.1 million as part of accrued liabilities to reflect the estimated workforce adjustment costs.

5. Employee future benefits

(a) Pension benefits

The Department'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 the Department contribute to the cost of the Plan. The current and previous year expenses, which represent approximately 1.8 times (1.9 times in 2010-11) the contributions by employees, amount to:

(in thousands of dollars)		2012		2011
Expense for the year	\$	98,132	\$	93,820

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

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

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

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

(in thousands of dollars)		2012		2011
Accrued benefit obligation - Beginning of year	\$	176,675	\$	170,828
Transferred to other government department, effective November 15, 2011 (note 12)		(3,860)		-
Subtotal		172,815		170,828
Expense for the year		17,417		15,579
Benefits paid during the year		(47,015)		(9,732)
Accrued benefit obligation - End of year	\$	143,217	\$	176,675

HEALTH CANADA

Notes to the Financial Statements (*Unaudited*) For the Year Ended March 31, 2012

6. Other liabilities

(in thousands of dollars)	2012		2011	
Canada Health Infoway Inc.	\$	489,315	\$	578,537
Other		39,870		6,946
Total other liabilities	\$	529,185	\$	585,483

Budget 2007 announced an allocation of \$400.0 million to Canada Health Infoway Inc. Of this authority \$293.5 million has been disbursed to date, \$30.5 million in 2011-12 (\$34.0 million in 2010-11). Budget 2009 announced an additional allocation of \$500.0 million to Canada Health Infoway Inc. Of this 2009 authority \$117.2 million has been disbursed to date, \$58.7 million in 2011-12, (\$58.5 million in 2010-11). The disbursed amounts include interest deemed to have been paid to Canada Health Infoway Inc.

The remaining other liabilities include amounts for contingent liabilities of \$33.0 million (nil for 2010-11) and Specified Purpose Accounts: Collaborative research projects \$3.1 million (\$3.0 million in 2010-11); miscellaneous federal/provincial projects \$1.8 million (\$1.2 million in 2010-11); and World Health Organization \$0.1 million (\$0.1 million for 2010-11).

7. Accounts receivable and advances

Health Canada records receivables from three main sources. As of March 31, amounts due under each of these categories are as follows:

(in thousands of dollars)	2012		2011 Restated (note 14)	
Accounts receivable - external parties	\$	42,554	\$	33,676
Accounts receivable - other government departments and agencies		7,505		8,696
Employee advances		102		99
Subtotal		50,161		42,471
Allowance for doubtful accounts on receivables from exten		(10,315)		(14,635)
Gross accounts receivable and advances		39,846		27,836
Accounts receivable held on behalf of Government		(8,736)		(4,518)
Net accounts receivable and advances	\$	31,110	\$	23,318

HEALTH CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31, 2012

8. Tangible capital assets

Capital assets (in thousands of dollars)	Opening Balance	Acquisitions	Disposals/ write-downs	Transfers and adjustments	Closing Balance
Land	1,177	-	-	-	1,177
Buildings	131,478	501	-	1,983	133,962
Works and infrastructure	1,745	-	-	-	1,745
Leasehold improvements	26,475	-	-	-	26,475
Machinery and equipment	208,394	13,789	(7,867)	(36,932)	177,384
Vehicles	19,064	2,335	(2,561)	(1,052)	17,786
Assets under construction	12,508	16,459	(867)	(7,295)	20,805
Total	\$ 400,841	\$ 33,084	\$ (11,295)	\$ (43,296)	\$ 379,334

Accumulated amortization (in thousands of dollars)	Opening Balance	Current year amortization	Disposals/ write-downs	Transfers and adjustments	Closing Balance
Buildings	100,380	4,790	-	-	105,170
Works and infrastructure	105	70	-	-	175
Leasehold improvements	19,621	707	-	-	20,328
Machinery and equipment	109,569	22,422	(7,324)	(19,130)	105,537
Vehicles	12,058	2,008	(2,403)	(527)	11,136
Total	\$ 241,733	\$ 29,997	\$ (9,727)	\$ (19,657)	\$ 242,346

Tangible capital assets net book value (in thousands of dollars)	Net Book Value 2011	Net change Acquisitions and Amortization	Net change Disposals/ write-downs	Net Change Transfers and adjustments	Net Book Value 2012
Land	1,177	-	-	-	1,177
Buildings	31,098	(4,289)	-	1,983	28,792
Works and infrastructure	1,640	(70)	-	-	1,570
Leasehold improvements	6,854	(707)	-	-	6,147
Machinery and equipment	98,825	(8,633)	(543)	(17,802)	71,847
Vehicles	7,006	327	(158)	(525)	6,650
Asset under construction	12,508	16,459	(867)	(7,295)	20,805
Total	\$ 159,108	\$ 3,087	\$ (1,568)	\$ (23,639)	\$ 136,988

Transfers from 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.

Effective November 15, 2011, the Department transferred assets with a net book value of \$20.5 million to Shared Services Canada. This transfer is in the transfer and adjustments column.

In addition, during fiscal year 2011-12 the Department transferred machinery and equipment with a net book value of \$3.1 million to other government departments.

HEALTH CANADA

Notes to the Financial Statements (*Unaudited*)

For the Year Ended March 31, 2012

9. Contractual obligations

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

(in thousands of dollars)		Transfer payments		Non-insured health benefits		Total
2012-13	\$	250,876	\$	22,000	\$	272,876
2013-14		202,972		23,000		225,972
2014-15		176,972		16,000		192,972
2015-16		145,972		-		145,972
2016-17 and thereafter		212,000		-		212,000
Total	\$	988,792	\$	61,000	\$	1,049,792

10. 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 the Department is obligated or likely to be obligated to incur such costs. Health Canada has identified sites where such action is possible and for which a liability has been recorded.

	2012	2011
Approximate number of sites for which a liability has been recorded	1	1
(in thousands of dollars)		
Liability recorded for contaminated sites	\$ 167	\$ 225

Health Canada'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 the Department in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The Department has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$0.2 million in 2011-12 (\$0.8 million in 2010-11).

Notes to the Financial Statements (Unaudited)
For the Year Ended March 31, 2012
11. Related party transactions

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

(a) Common Services provided without charge by other government departments:

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

(in thousands of dollars)	2012		2011	
Employer's contribution to the health and dental insurance plans	\$	70,955	\$	66,973
Accommodation		57,434		55,788
Legal services		6,016		6,629
Worker's compensation		561		618
Total	\$	134,966	\$	130,008

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

(b) Other transactions with related parties:

(in thousands of dollars)	2012		2011	
Accounts receivable - other government departments and agencies	\$	7,505	\$	8,696
Accounts payable - other government departments and agencies		11,005		19,082
Expenses - other government departments and agencies		128,020		99,945
Revenues - other government departments and agencies		9,025		8,516

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

Notes to the Financial Statements (*Unaudited*)

For the Year Ended March 31, 2012

12. Transfers to other government departments

Effective November 15, 2011, the Department transferred responsibility for the control and supervision of operational domains related to email and network services, including telecommunications for voice and data to Shared Services Canada in accordance with section 31.1 of the *Financial Administration Act* and Order in Council P.C. 2011-0877, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, the Department transferred the following assets and liabilities related to the control and supervision of operational domains related to email and network services, including telecommunications for voice and data to Shared Services Canada on November 15, 2011:

(in thousands of dollars)

Assets

Tangible capital assets (net book value) (note 8)	\$	20,545
Total assets transferred		20,545
Liabilities		
Vacation pay and compensatory leave		142
Employee future benefits (note 5)		3,860
Total liabilities transferred		4,002
Adjustment to the departmental net financial position	\$	16,543

In addition, the 2010-11 comparative figures have been reclassified on the Statement of Operations and Departmental Net Financial Position to present the revenues and expenses of the transferred operations.

During the transition period, the Department continued to administer the transferred activities on behalf of Shared Services Canada. The administered expenses amounted to \$21.4 million for the year. These expenses are not recorded in the financial statements.

HEALTH CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31, 2012

13. Segmented information

	A health system responsive to the needs of Canadians	Canadians are informed of and protected from health risks associated with food, products, substances and environments, and are informed of the benefits of healthy eating	First Nations and Inuit communities and individuals receive health services and benefits that are responsive to their needs so as to improve their health status	Internal services	2012 Total	2011 Total Restated (note 14)
(in thousands of dollars)						
Expenses						
Transfer payments	\$ 294,174	\$ 65,054	\$ 1,127,296	\$ -	\$ 1,486,524	\$ 1,479,225
Salaries and employee benefits	52,610	480,793	268,421	252,364	1,054,188	957,444
Utilities, materials and supplies	738	27,639	444,249	18,456	491,082	480,053
Professional and special services	9,736	63,722	349,159	45,452	468,069	472,435
Travel non-insured health patients	-	-	178,537	-	178,537	154,014
Accommodation	3,684	38,454	16,740	12,161	71,039	71,549
Travel and relocation	1,296	9,953	25,373	3,459	40,081	38,544
Purchased repair and maintenance	330	4,399	2,356	30,314	37,399	30,938
Other	(745)	33,265	(797)	1,147	32,870	2,499
Amortization of tangible capital assets	876	10,866	2,924	11,274	25,940	25,021
Information services	169	4,554	2,046	8,818	15,587	23,030
Communications	117	2,733	3,066	6,677	12,593	13,911
Bad debts	-	-	-	3,650	3,650	2,472
Rentals	93	1,642	1,140	608	3,483	3,834
Expenses incurred on behalf of Government	-	-	-	(763)	(763)	(259)
Total expenses	363,078	743,074	2,420,510	393,617	3,920,279	3,754,710
Revenues						
Sales of goods and services						
Services of a regulatory nature	-	41,984	-	-	41,984	33,746
Rights and privileges	-	45,991	-	11	46,002	24,950
Services of a non-regulatory nature	10,162	7,414	5,055	214	22,845	23,337
Lease and use of public property	-	1	180	119	300	223
Revenues from fines	-	2,848	-	-	2,848	2,609
Interest	-	-	-	250	250	356
Other	2,184	1,822	322	92	4,420	5,540
Revenues earned on behalf of Government	(2,184)	(16,202)	(1,644)	(463)	(20,493)	(16,294)
Total revenues	10,162	83,858	3,913	223	98,156	74,467
Net cost from continuing operations	\$ 352,916	\$ 659,216	\$ 2,416,597	\$ 393,394	\$ 3,822,123	\$ 3,680,243

HEALTH CANADA

Notes to the Financial Statements (*Unaudited*)

For the Year Ended March 31, 2012

14. Accounting changes

During 2011, amendments were made to *Treasury Board Accounting Standard 1.2—Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to the Department's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

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

Revenue and related accounts receivable are now presented net of non-respondable amounts in the Statement of Operations and Departmental Net Financial Position and Statement of Financial Position. The effect of this change was to increase the net cost of operations before government funding and transfers by \$20.5 million for 2011-12 (\$16.3 million for 2010-11) and decrease total financial assets by \$8.7 million for 2011-12 (\$4.5 million for 2010-11).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers." In previous years, the Department recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by \$3.8 million for 2011-12 (\$3.8 million for 2010-11).

	2011		2011		
	As previously stated	Effect of transferred operations	Effect of accounting changes	Restated	
<i>(in thousands of dollars)</i>					
Statement of Financial Position					
Liabilities held on behalf of Government	\$ -	\$ -	\$ (32)	\$ (32)	
Assets held on behalf of Government	-	-	(4,518)	(4,518)	
Departmental net financial position	(633,572)	-	(4,486)	(638,058)	
Statement of Operations and Departmental Net Financial Position					
Expenses	3,815,471	(60,502)	(259)	3,754,710	
Revenues	90,761	-	(16,294)	74,467	
Government funding and transfers					
Net cash provided by Government	-	-	3,761,103	3,761,103	
Change in due to Consolidated Revenue Fund	-	-	(58,585)	(58,585)	
Services provided without charge by other government departments	\$ -	\$ -	\$ 130,008	\$ 130,008	

15. Comparative information

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

Health Canada's Annex to the
*Statement of Management Responsibility Including
Internal Control Over Financial Reporting*

Assessment of Internal Controls over
Financial Reporting and the Action Plan for
the fiscal year ending March 31, 2012

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, to 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 along with providing assurance that:

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

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

The maintenance of an effective system of ICFR is an ongoing process designed to identify, assess effectiveness, and adjust as required key controls to mitigate 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.

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1. Introduction

This document is attached to Health Canada's (HC) Statement of Management Responsibility including Internal Control over Financial Reporting (ICFR) for the fiscal year ended March 31, 2012. As required by the Treasury Board Policy on Internal Control (PIC), this document provides summary information on the measures taken by management to maintain an effective system of ICFR. In particular, it provides summary information on the assessments conducted by HC as at March 31, 2012, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the department. This is the third year of publication of this annex.

1.1 Authority, Mandate and Program Activities

Detailed information on HC's authority, mandate and program activities can be found in the Departmental Performance Report [HYPERLINK] and the Report on Plans and Priorities <http://www.hc-sc.gc.ca/ahc-asc/performance/estim-previs/plans-prior/index-eng.php>.

1.2 Financial highlights

Below is key financial information for fiscal year 2011-2012. More information can be found in HC's Financial Statements (unaudited) along with the Notes to Financial Statements [HYPERLINK]. Information can also be found in the Public Accounts of Canada [HYPERLINK].

- Approximately 62% (\$2.4 billion) of the department's total spending authorities (\$3.9 billion) are derived from the First Nations and Inuit Health Programs and are incurred across Canada to provide health services to First Nations and Inuit people.
- HC has approximately 10,000 employees, with salary costs representing about 27% of authorized expenditures.
- HC has a regional presence of approximately 34% of the department's total employees with the remaining 66% located in the National Capital Region (NCR). The regions play a key role in delivering the department's mandate to Canadians.
- The regions initiate, approve and process a relative portion of operating expenses including goods and services, capital assets and some human resources/payroll transactions as well as Grants and Contributions. Key control procedures for these services are performed in the regional offices.
- There are a number of information systems that are critical to departmental operations and financial reporting such as SAP (Systems, Applications, and Products in data processing) which is the department's financial system of records, two contribution systems, a departmental Contract Requisition and Reporting System, and Peoplesoft.
- As per the notes to the financial statements, which explain and expand on information contained in the financial statements, the department complies with numerous statutory and regulatory requirements.

1.3 Service arrangements relevant to financial statements

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

Common Arrangements

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of goods and services, as per HC's Delegation of Authority.
- Treasury Board Secretariat provides the departments with information that is used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to HC.
- 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 Health Canada to SSC. The administration and delivery of these services were shared during the 2011-12 transition period while SSC was being established.

Specific Arrangements:

- An external service provider, pursuant to a contract with the Government of Canada, administers the Health Information and Claims Processing System for pharmacy, dental care, medical supplies and equipment benefits on behalf of the First Nations and Inuit Health Branch program. The external service provider has the authority and responsibility to ensure that claims paid on behalf of HC for services provided to First Nations and Inuit clients are made in accordance with the Terms and Conditions set out by the First Nations and Inuit Health Branch program. Included in the contract requirements is the condition that an independent annual assurance report on the operating effectiveness of controls be provided at the end of each reporting period in accordance with the standards of the Canadian Institute of Chartered Accountants (CICA).

1.4 Material changes in fiscal year 2011-2012

Changes impacting the Financial Resources

In 2011-2012, significant changes to Health Canada authorities were as follows:

- The Health Products and Food Branch (HPFB) introduced a new cost recovery regime, resulting in an increase to their net vote revenues authority for Human Drugs and Medical Devices from \$39.3M to \$98.9M, to improve regulatory review service delivery in these areas.
- HC changed its operations in response to the creation of Shared Services Canada, including transferring of certain IT functions and associated staff; and financial sources (deemed appropriation of \$22.4M for 2011-12, including EBP).
- HC received new funding to establish the Canada Brain Research Fund to advance knowledge for the treatment of brain disorders (\$10M in contributions for 2011-12) and to help support the development of new community integrated palliative care models (\$250K in contributions for 2011-12).
- HC received funding to maintain the provision of supplementary health benefits and to ensure continuity of access to clinical and client care nursing services in remote and isolated First Nations communities (\$218.8M for 2011-12, including EBP).

- HC renewed its sunseting programs, of which the major items include:
 - Funding to protect Canadians health and the environment through a renewed Chemicals Management Plan (\$70.5M for 2011-2012, including EBP);
 - Funding for the renewal of the Clean Air Regulatory Agenda (\$27.5M for 2011-2012, including EBP);
 - Funding related to the assessment, management and remediation of federal contaminated sites (\$4.2M for 2011-2012, including EBP);
 - Funding to help Canadians adapt to the impacts of climate change under Canada's Clean Air Agenda (\$2.2M for 2011-2012, including EBP).

Changes in Senior Management

In 2011-2012, there were no changes in the Deputy Minister and the Chief Financial Officer positions.

2. Health Canada's control environment relevant to ICFR

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

Key components of entity level controls in departments aim at ensuring solid **governance** and effective **risk management** at the corporate level, as well as the maintenance of **other entity level controls** to provide effective support to staff by raising awareness and providing appropriate knowledge, skills, and tools.

2.1 Key positions, roles and responsibilities

Deputy Minister - As the Accounting Officer and the lead member of the governance structure for HC, the Deputy Minister assumes overall responsibility and leadership for the stewardship, management and oversight of departmental resources, including the measures taken to maintain an effective system of internal control.

Chief Financial Officer (CFO) - The Chief Financial Officer reports directly to the Deputy Minister. The CFO is the focal point of accountability and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR. This includes accounting, financial reporting, performance measurement and evaluation, procurement and assets management. The CFO is the chair of the Executive Sub-Committee on Finance, Evaluation and Accountability, which is one of three Assistant Deputy Minister-chaired sub-committees.

Assistant Deputy Ministers (ADM) – As senior departmental managers in charge of program delivery and reporting to the Deputy Minister, the ADMs are responsible for providing assistance with governance along with the management and oversight of the resources falling within their mandate, including financial management and reporting.

Chief Audit Executive (CAE) - The Chief Audit Executive reports directly to the Deputy Minister, independent from line management. The CAE provides assurance through periodic internal audits focused on risk management, control, and governance processes which are necessary components in maintaining an effective system of ICFR.

Departmental Audit Committee (DAC) – The Departmental Audit Committee was established in 2008 and is comprised of the Deputy Minister and four members external to the Government. In 2011-2012, the DAC met four times, to provide advice on governance, risk management and control. During the year, the Chair responsibility changed from the Deputy Minister to one of the external members.

Executive Committees (EC) - The Executive Committee is HC's most senior horizontal decision-making, direction setting and oversight body. It is responsible for the strategic management of the department's substantive responsibilities (i.e. regulations, legislation, policies, and programs) and corporate responsibilities. The EC is supported by three sub-committees:

1. **Finance Evaluation and Accountability (EC-FEA)** supports the EC by providing strategic leadership and direction for departmental financial management and control; managing for results; management accountability; program evaluation; procurement and assets management; investment planning and project management; and internal audit.
2. **Internal Services (EC-IS)** supports the EC by providing strategic leadership and direction for internal service implications of new or ongoing departmental issues and related departmental policies. Areas of focus include: communications, regional operations, information technology, information management, real property, security, operational human resources, procurement and contracting, access to information and privacy (ATIP), as well as occupational health and safety.
3. **Science and Risk Management (EC-SRM)** supports the EC by providing strategic leadership, advice and direction for emerging and on-going horizontal science and risk management issues. These could include common risk management issues at the science - policy interface (e.g., emerging health risk issues); legal risks, horizontal science policy and legislative and regulatory policy issues; and international issues.

2.2 Key measures taken by Health Canada

The control environment is an important factor for ICFR. The Department's control environment incorporates a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. Key measures taken include:

- A realignment within the Chief financial Officer Branch (CFOB) to cluster related functions under two directorates, including a change to the regional finance and accounting functions which, since April 2012, are reporting directly to the CFO.
- The Ethics and Internal Ombudsman Services committed to helping employees, work teams and the Department address conflicts, workplace concerns and ethical issues holistically;
- HC's code of conduct, and code of values and ethics in support of the professional activities of its employees;
- A dedicated division on internal control reporting to the Deputy Chief Financial Officer;
- Annual performance agreements which clearly set out the financial management and reporting responsibilities of its staff;
- Formal training programs and communication documents in core areas of financial management;
- Departmental policies tailored to HC's control environment;

- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- Annual review of the financial signing authority cards and update of the delegated authorities matrix as required; and,
- Information Technology (IT) processing systems to achieve greater security, integrity, efficiency and effectiveness.

In addition, HC annually updates its Corporate Risk Profile which falls under the responsibility of EC-FEA. This report outlines the key risks that need to be managed over the upcoming fiscal year in order to achieve the Department's mandate and strategic objectives. This also contributes to the departmental priority setting exercise and integrated operational planning process.

3. Assessment of Health Canada's system of ICFR

3.1 Assessment Approach

In support of the PIC an effective system of ICFR has the objective to provide reasonable assurance that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded; and,
- Applicable laws, regulations and policies are followed.

In order to achieve this, departments are required to assess on an ongoing basis the design and operating effectiveness of the key controls over financial reporting in support of continuous improvements of the departmental system of ICFR.

Design effectiveness means ensuring that key control points are identified, documented, implemented and are aligned with the risks they aim to mitigate and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location as applicable.

Operating effectiveness means that the application of key controls to financial transactions has been tested over a defined period and that any required remediation is addressed.

Ongoing Monitoring means that a systematic integrated approach to monitoring is in place, including periodic risk-based assessment and timely remediation.

3.2 Health Canada's assessment scope

In support of the implementation of the PIC, the department has taken measures to assess its system of ICFR starting from its financial statements with a focus on developing frameworks for its key business processes. For this, the department gathered information and mapped out these key processes with the identification and documentation of key risk and control points on the basis of materiality, volume, complexity, geographic dispersion, and susceptibility to losses/frauds, areas subject to audit observations, past history, and external attention. Further, HC documented and assessed its entity-level controls and Information Technology General Controls (ITGC).

In 2011-2012, the department continued to conduct operating effectiveness testing with a particular focus on the following processes: contracting (procure-to-pay), transfer payments, revenues, payroll, Non-Insured Medical Transportation, and ITGC.

In addition, HC have made progress on action plans developed to address observations from prior years ICFR assessments including:

- Capital Asset Management;
- Account Receivable Management;
- Vendor Master Data Integrity. and
- Enhancement of the process to estimate PAYE for Grants and Contributions

4. Health Canada's assessment results

4.1 Design effectiveness of key controls

Design effectiveness is not static. Therefore as policies, systems and procedures are amended, the design effectiveness of the key controls is reassessed and modified accordingly. This ensures compliance and that key controls are still appropriately aligned with the risks they aim to mitigate.

In 2011–2012, as noted in section 3.2 above, the focus was on operating effectiveness testing.

4.2 Operating effectiveness of key controls

In 2011-2012, operating effectiveness testing of key controls was conducted as planned on the Contracting, Revenues, Payroll, and Transfer Payments business processes, as well as on the Non-Insured Medical Transportation process. In addition, follow-up was conducted on the observations identified in the last ITGC assessment.

Process	Status	Comments
Contracting	Completed	<p>Testing of these controls was included as part of audits conducted by the Audit and Accountability Bureau (AAB). Overall results concluded that these key controls were operating effectively and recommendations were made to enhance the process in the following two areas:</p> <ul style="list-style-type: none"> a) Quality Assurance over Financial Administration Act (FAA) Section 34 certification; and b) Expenditure initiation for the procurement of a specific type of services. <p>Action plans were developed to improve these areas</p>
Revenues	Completed	<p>Enhancements were identified mainly in the following areas:</p>

Process	Status	Comments
		<p>a) Reconciliation between the invoicing systems and the departmental financial system (SAP) and; b) Approval of credit notes.</p> <p>Action Plan is being developed to improve these areas.</p>
Information Technology General Controls	Substantially advanced	<p>As recent update to SAP and the rollout of Peoplesoft, HC continued to reassess its IT General Controls as a way to reaffirm those controls as important elements of the departmental control framework.</p> <p>Required enhancements were identified in the areas of user access and program change management.</p> <p>Action Plan is being developed to improve these areas.</p>
Non-Insured Medical Transportation (NIMT)	Substantially advanced	<p>Results of Operating Effectiveness Testing indicate that attention and review of controls around travel approval are required.</p> <p>Action Plan is being developed to address this gap.</p>
Transfer Payments	Commenced	<p>Operating Effectiveness Testing of the Transfer Payments process started in 2011-2012 and will continue in 2012-2013 including follow-up on initiatives listed in section 5.1.</p>
Payroll	Commenced	<p>Operating Effectiveness Testing of the Payroll Process started in 2011-2012 and will continue in 2012-2013 including follow-up on observations from prior internal audits.</p>

In addition, the Audit and Accountability Bureau (AAB) completed a number of audits whose scope included some components which assessed controls over financial reporting. The areas examined included: Key Financial Controls; Purchasing, Payables and Payments process; and SAP General Computer Controls. The overarching conclusion of these audits support the effectiveness and comprehensiveness of the management control frameworks as well as identifying some areas for improvement. The results were accepted by management who have established action plans and have proceeded with their implementation.

5. Health Canada's action plan

5.1 Progress made during the fiscal year ending March 31, 2012

During 2011-2012, HC continued to make significant progress in assessing and improving its key controls. Results of the work performed and the plan for the next two years was presented at the Departmental Audit Committee in March 2012 and received support.

The following is a summary and status of a number of initiatives undertaken in 2011-2012 to address observations from prior year ICFR assessments

Actions	Status	Comments
Monitor the implementation of action plans to address assessment results		
Development of a policy on Accounting for Capital Assets	Completed	A new policy on Accounting for Capital Assets came into effect in 2011-2012. Included in this policy is the clarification of the standards for the capitalization and recording of capital assets and the roles and responsibilities of the key stakeholders involved in managing and accounting for capital assets.
Enhancement of the process to estimate PAYE for grants and contributions	Completed	A new standard template was implemented, requiring sign-off by both Finance and the Programs, in support of the creation of PAYEs for Gs and Cs. In addition, monitoring and follow-up on outstanding items has been implemented to ensure appropriate and timely usage and clearance of all PAYEs.
Monitoring of the implementation of the new policy on Accounting for Capital Assets	Substantially advanced	<p>The implementation of the new policy on Accounting for Capital Assets is currently being monitored to ensure it addresses issues noted in annual inventory exercises.</p> <p>In 2012-2013, an initiative to further ensure ready access to source documents supporting the values of capital assets, by electronically attaching such documents directly in SAP, will be implemented.</p>
Implementation of a Policy on Receivable Management and Charging Interest on overdue accounts to clarify	Substantially advanced	<p>The implementation of the Policy on Accounts Receivable Management and Charging Interest on overdue accounts highlighted the need to further clarify the responsibilities between Finance and the Program, specifically for Contribution Agreements.</p> <p>This Policy is currently being revised.</p>

Actions	Status	Comments
Monitor the implementation of action plans to address assessment results		
Development of a Policy on Vendor Master Records	Substantially advanced	The expected result of this policy, once fully implemented, is the standardization of applications in the creation and maintenance of vendor records and improved quality and consistency of reporting.
Reconciliation between the operating system used for managing and monitoring FNIHB Grants and Contributions (G&C) with SAP	Commenced	An initiative is underway to update the information captured in the operating system used for managing and monitoring FNIHB Grants and Contributions. This information supports the determination/establishment of Accounts Receivable which will be recorded in both systems.

Other project initiated in 2011-2012		
Work	Status	Comments
Departmental Procure to Pay Initiative	Commenced	<p>The Department launched the Procure to Pay initiative. This automation initiative is part of the Department's on-going business process improvements mandate to increase departmental efficiencies. This initiative is expected to standardize business processes, improve accuracy and timeliness of information and improve internal controls over financial practices by implementing electronic work flows and approvals.</p> <p>Department-wide implementation is planned for 2012-2013</p>

5.2 Action plan for the next fiscal years

Health Canada (HC) is committed to improving its framework of internal controls over financial reporting to ensure that key controls appropriately mitigate associated risks.

In 2012-2013, HC plans to:

- Perform testing of the operating effectiveness of the remaining key financial reporting controls of the main business processes including Financial Statements, Payroll, Transfer Payments, Interdepartmental Settlements, Travel and Hospitality and Non-Insured Medical Transportation.
- Re-assess and update the Information Technology General Controls (ITGC) and Entity Level Controls.
- Ensure that action plans are developed and appropriately implemented to enhance internal control framework and mitigate risks for areas referenced in sections 4.2 and 5.1 and any potential future requirements identified as part of operating effectiveness testing conducted in the year.

In 2013-2014, plans to:

- Be in a state of readiness to sustain a control-based audit of the 2013-2014 financial statements.
- Fully implement an ongoing risk-based monitoring strategy to ensure internal controls over financial reporting are maintained and that changes to business processes key controls are documented and tested on a timely basis.