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SHARED SERVICES CANADA

Financial Statements

March 31, 2017



Shared Services
Canada

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Canada 

Shared Services Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2017, and all information contained in these statements rests with the management of Shared Services Canada. These financial statements have been prepared by management using the government's accounting policies, which are based on Canadian public sector accounting standards.

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

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

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

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

A risk-based assessment of the system of ICFR for the year ended March 31, 2017 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results are summarized in the annex.

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

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

Original signed by

Ron Parker
President

Ottawa, Canada
August 31, 2017

Original signed by

Alain Duplantie, MBA, CPA, CGA
Senior Assistant Deputy Minister,
Corporate Services and
Chief Financial Officer

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

	<u>2017</u>	<u>2016</u>
Liabilities		
Accounts payable and accrued liabilities (note 4)	548,939	370,159
Vacation pay and compensatory leave	31,249	28,058
Deferred revenue (note 5)	3,610	3,468
Lease obligations for tangible capital assets (note 6)	56,711	100,398
Employee future benefits (note 7)	24,367	32,605
Total liabilities	664,876	534,688
Financial assets		
Due from the Consolidated Revenue Fund	388,690	308,404
Accounts receivable and advances (note 8)	208,185	203,090
Total gross financial assets	596,875	511,494
Financial assets held on behalf of Government		
Accounts receivable and advances (note 8)	(2,898)	(1,125)
Total financial assets held on behalf of Government	(2,898)	(1,125)
Total net financial assets	593,977	510,369
Departmental net debt	70,899	24,319
Non-financial assets		
Prepaid expenses	28,365	39,500
Tangible capital assets (note 9)	661,705	520,117
Total non-financial assets	690,070	559,617
Departmental net financial position	619,171	535,298

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

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

Original signed by

Ron Parker
President

Ottawa, Canada
August 31, 2017

Original signed by

Alain Duplantie, MBA, CPA, CGA
Senior Assistant Deputy Minister,
Corporate Services and
Chief Financial Officer

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

	<u>2017</u>	<u>2017</u>	<u>2016</u>
	Planned Results		
Expenses			
IT Infrastructure Services	1,701,304	1,962,559	1,786,318
Internal Services	<u>177,864</u>	<u>164,378</u>	<u>150,276</u>
Total expenses	1,879,168	2,126,937	1,936,594
Revenues			
Sale of goods and services	421,866	563,613	435,850
Miscellaneous revenues	72	606	890
Revenues earned on behalf of Government	<u>(11,321)</u>	<u>(10,084)</u>	<u>(7,834)</u>
Total revenues	410,617	554,135	428,906
Net cost of operations before government funding and transfers	1,468,551	1,572,802	1,507,688
Government funding and transfers			
Net cash provided by Government of Canada		1,494,224	1,648,847
Change in due from the Consolidated Revenue Fund		80,286	(45,245)
Services provided without charge by other government departments (note 12)		82,101	78,959
Transfer of the transition payments for implementing salary payments in arrears		-	(37)
Net transfer of salary overpayments from other government departments		49	-
Transfer of tangible capital assets from other government departments		<u>15</u>	<u>131</u>
Net cost of operations after government funding and transfers		(83,873)	(174,967)
Departmental net financial position – Beginning of year		535,298	360,331
Departmental net financial position – End of year		<u>619,171</u>	<u>535,298</u>

Segmented information (note 13)

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

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

	<u>2017</u>	<u>2016</u>
Net cost of operations after government funding and transfers	(83,873)	(174,967)
Change due to tangible capital assets		
Acquisitions of tangible capital assets	275,534	162,897
Amortization of tangible capital assets	(132,135)	(137,017)
Net loss on disposal of tangible capital assets including adjustments	(1,826)	-
Transfers from other government departments	15	131
Total change due to tangible capital assets	141,588	26,011
Change due to prepaid expenses	(11,135)	23,473
Net increase (decrease) in departmental net debt	46,580	(125,483)
Departmental net debt – Beginning of year	24,319	149,802
Departmental net debt – End of year	70,899	24,319

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

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

	<u>2017</u>	<u>2016</u>
Operating activities		
Net cost of operations before government funding and transfers	1,572,802	1,507,688
Non-cash items:		
Amortization of tangible capital assets	(132,135)	(137,017)
Net loss on disposal of tangible capital assets including adjustments	(1,826)	-
Services provided without charge by other government departments (note 12)	(82,101)	(78,959)
Transition payments for implementing salary payments in arrears	-	37
Net transfer of salary overpayments from other government departments	(49)	-
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	3,322	108,011
Increase (decrease) in prepaid expenses	(11,135)	23,473
Decrease (increase) in accounts payable and accrued liabilities	(178,780)	42,302
Decrease (increase) in vacation pay and compensatory leave	(3,191)	415
Decrease (increase) in deferred revenue	(142)	4,624
Decrease (increase) in employee future benefits	8,238	2,526
Cash used in operating activities	<u>1,175,003</u>	<u>1,473,100</u>
Capital investing activities		
Acquisitions of tangible capital assets (excluding leased tangible capital assets)	<u>275,534</u>	<u>136,631</u>
Cash used in capital investing activities	<u>275,534</u>	<u>136,631</u>
Financing activities		
Payments on lease obligations for tangible capital assets	<u>43,687</u>	<u>39,116</u>
Cash used in financing activities	<u>43,687</u>	<u>39,116</u>
Net cash provided by Government of Canada	<u>1,494,224</u>	<u>1,648,847</u>

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

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

1. Authority and objectives

Shared Services Canada (SSC) was created on August 4, 2011 to transform how the Government of Canada manages its information technology (IT) infrastructure. SSC operates under the legislation set out in the *Shared Services Canada Act* and reports to Parliament through the Minister of Public Services and Procurement Canada. SSC delivers email, data centre, network and workplace technology device services to departments and agencies in a consolidated and standardized manner to support the delivery of Government of Canada programs and services. With a whole-of-government approach to IT infrastructure services, SSC is generating economies of scale to deliver more efficient, reliable and secure IT infrastructure services. SSC also provides certain optional technology services to other organizations on a cost-recovery basis.

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

SSC's Program Alignment Architecture includes the following programs:

- **Information Technology (IT) Infrastructure Services:** This program delivers IT infrastructure services to federal government departments to enable and support the management, co-ordination and delivery of government programs to Canadians and the achievement of Government of Canada priorities. The IT Infrastructure Services consist of four main IT service groups: (a) Distributed Computing, (b) Production and Operations Computing (Data Centres), (c) Telecommunications (Data, Voice and Video), and (d) Cyber and IT Security. This program establishes a centralized common IT infrastructure service leading to consolidation and standardization in the management and delivery of IT services across the mandated partner and client organizations. This consolidation and standardization of services contributes to greater operational efficiencies and economies of scale, resulting in better value to Canadian taxpayers, enhanced reliability and security of the IT services, a reduction in the duplication of effort and managerial oversight, and the development of a harmonized response to partner and client organizations' business requirements.
- **Internal Services:** Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. Internal Services include only those activities and resources that apply across an organization, not those provided to a specific program. The groups of activities 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 and Acquisition Services.

2. Summary of significant accounting policies

These financial statements have been prepared using the government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

SSC is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to SSC do not parallel financial reporting according to generally accepted

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

accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

The planned results amounts in the “Expenses” and “Revenues” sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2016-17 Report on Plans and Priorities*. Planned results are not presented in the “Government funding and transfers” section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the *2016-17 Report on Plans and Priorities*.

b) Net cash provided by Government of Canada

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

c) Amounts due from or to the Consolidated Revenue Fund

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

d) Revenues

Revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

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

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

e) Expenses

Expenses are recorded on the accrual basis:

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

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

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

f) Employee future benefits

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

g) Accounts receivable and advances

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

h) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. SSC does not hold, and therefore does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian reserves and museum collections.

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

Asset Class	Amortization Period
Buildings	From 20 to 40 years
Works and infrastructure	From 20 to 40 years
Machinery and equipment	From 5 to 15 years
Computer hardware	From 3 to 10 years
Computer software	From 3 to 10 years
Vehicles	From 6 to 8 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Leased tangible capital assets	According to the useful life of the asset if a bargain purchase option exists or over the term of the lease

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

i) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a

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

reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

j) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

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

3. Parliamentary authorities

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

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Net cost of operations before government funding and transfers	1,572,802	1,507,688
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(132,135)	(137,017)
Net loss on disposal of tangible capital assets including adjustments	(1,826)	-
Services provided without charge by other government departments	(82,101)	(78,959)
Decrease (increase) in vacation pay and compensatory leave	(3,191)	415
Decrease (increase) in employee future benefits	8,238	2,526
Bad debt expense	(4)	1
Refunds and adjustments to previous years' expenses	8,146	6,247
Responsable revenue	4,730	4,081
Total items affecting net cost of operations but not affecting authorities	(198,143)	(202,706)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets (excluding leased tangible capital assets)	275,534	136,631
Payments on lease obligations for tangible capital assets	43,687	39,116
Transition payments for implementing salary payments in arrears	-	37
Increase (decrease) in accounts receivable for salary overpayments	2,448	205
Increase (decrease) in prepaid expenses	(11,135)	23,473
Revenue available for spending	(3,823)	-
Total items not affecting net cost of operations but affecting authorities	306,711	199,462
Current year authorities used	<u>1,681,370</u>	<u>1,504,444</u>

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

b) Authorities provided and used

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Authorities provided:		
Vote 1 – Operating expenditures	1,377,901	1,229,510
Vote 5 – Capital expenditures	443,216	268,799
Statutory amounts	74,849	83,398
Less:		
Lapsed: Operating expenditures (1)	(99,627)	(28,495)
Lapsed: Capital expenditures (2)	(114,969)	(48,768)
Current year authorities used	<u>1,681,370</u>	<u>1,504,444</u>

- (1) The lapse of \$99.6 million in Operating expenditures includes an amount of \$80.0 million which has been requested to Treasury Board Secretariat (TBS) to be carried over to 2017-18. The lapse includes total frozen allotments (funds withheld by TBS which cannot be spent by SSC in 2016-17) of \$21.2 million composed of \$10.0 million in retroactive payments under collective agreements, \$4.8 million in special purpose allotments for Workspace Renewal Project, Refresh of the Mission Critical Infrastructure Technology and Secure Canada's Government IT Infrastructure and Information, \$3.0 million for the Financial Management Transformation, \$2.6 million for Back Office Transformation, \$0.7 million for Resettlement of Syrian Refugees, and \$0.1 million for professional services, advertising and travel.
- (2) The lapse of \$115.0 million in Capital expenditures includes an amount of \$59.9 million which has been requested to TBS to be carried over to 2017-18. The lapse includes total frozen allotments (funds withheld by TBS which cannot be spent by SSC in 2016-17) of \$62.6 million composed of \$52.0 million for Carling Campus Reprofile, \$9.0 million for Secure Canada's Government IT Infrastructure and Information, \$1.1 million for the Conversion for lapse in Personnel and \$0.5 million for Resettlement of Syrian Refugee.

4. Accounts payable and accrued liabilities

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Accounts payable - Other government departments and agencies	61,198	33,464
Accounts payable - External parties	218,054	161,418
Total accounts payable	279,252	194,882
Accrued liabilities	269,687	175,277
Total accounts payable and accrued liabilities	<u>548,939</u>	<u>370,159</u>

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

5. Deferred revenue

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Opening balance	3,468	8,092
Amounts received	3,823	-
Revenue recognized	(3,681)	(4,624)
Net closing balance	3,610	3,468

6. Lease obligations for tangible capital assets

SSC has entered into agreements to lease certain computer hardware under capital leases with a cost of \$185 million and accumulated amortization of \$128 million as at March 31, 2017 (\$185 million and \$86 million respectively as at March 31, 2016). The obligations related to the upcoming years include the following:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
2017	-	44,194
2018	36,343	36,343
2019	20,677	20,677
Total future minimum lease payments	57,020	101,214
Less: imputed interest (0.65% to 1.3%)	309	816
Balance of obligations under leased tangible capital assets	56,711	100,398

7. Employee future benefits

a) Pension benefits

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

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

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

The 2016-17 expense amounts to \$50 million (\$56 million in 2015-16). For Group 1 members, the expense represents approximately 1.12 times (1.25 times in 2015-16) the employees' contributions and, for Group 2 members, approximately 1.08 times (1.24 times in 2015-16) the employees' contributions.

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

b) Severance benefits

Severance benefits provided to SSC's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2017, substantially all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Accrued benefit obligation - Beginning of year	32,605	35,131
Expense (adjustment) for the year	(6,096)	327
Benefits paid during the year	(2,142)	(2,853)
Accrued benefit obligation - End of year	24,367	32,605

8. Accounts receivable and advances

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Receivables - Other government departments and agencies	197,601	196,194
Receivables - External parties	10,485	6,866
Employee advances	106	34
Subtotal	208,192	203,094
Allowance for doubtful accounts on receivables from external parties	(7)	(4)
Gross accounts receivable and advances	208,185	203,090
Accounts receivable held on behalf of Government	(2,898)	(1,125)
Net accounts receivable and advances	205,287	201,965

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

9. Tangible capital assets

(in thousands of dollars)

Capital Asset Class	Cost					Accumulated amortization					Net Book Value	
	Opening Balance	Acquisitions	Adjustments	Disposals and Write-Offs	Closing Balance	Opening Balance	Amortization	Adjustments	Disposals and Write-offs	Closing Balance	2017	2016
Buildings	3,085	-	-	-	3,085	2,254	103	-	-	2,357	728	831
Works and infrastructure	1,310	-	-	-	1,310	66	53	-	-	119	1,191	1,244
Machinery and equipment	52,896	624	289	17	53,792	35,686	3,456	-	17	39,125	14,667	17,210
Computer hardware	1,144,107	151,491	69,309	-	1,364,907	928,291	75,001	206	-	1,003,498	361,409	215,816
Computer software	145,644	32,613	234	-	178,491	132,085	10,661	233	-	142,979	35,512	13,559
Vehicles	58	-	-	25	33	15	5	-	15	5	28	43
Leasehold improvements	29,088	-	382	-	29,470	21,942	792	-	-	22,734	6,736	7,146
Leased tangible capital assets	185,267	-	-	-	185,267	86,268	42,064	-	-	128,332	56,935	98,999
Assets under construction	165,269	90,806	(71,576)	-	184,499	-	-	-	-	-	184,499	165,269
Total	1,726,724	275,534	(1,362)	42	2,000,854	1,206,607	132,135	439	32	1,339,149	661,705	520,117

Adjustments include assets under construction of \$69.8 million that were transferred to the other categories upon completion of the assets.

Adjustments also include \$1.8 million in adjustments of previous year expenses that should not have been capitalized.

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

10. Contractual obligations

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

<i>(in thousands of dollars)</i>	2018	2019	2020	2021	2022 and thereafter	Total
Acquisition of goods and services	371,837	197,336	144,472	142,987	182,259	1,038,891
Leases	33,967	45,289	48,085	56,473	175,445	359,259
Total	405,804	242,625	192,557	199,460	357,704	1,398,150

11. Contingent liabilities

Claims have been made against SSC in the normal course of operations. Where it is likely that there will be a future payment and a reasonable estimate of the loss can be made, an allowance for claims and litigations is recorded. No allowance has been recorded in SSC's financial statements. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management are nil at March 31, 2017 and amounted to approximately \$2.7 million at March 31, 2016.

12. Related party transactions

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

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

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

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Employer's contribution to the health and dental insurance plans	46,571	43,820
Accommodation	35,530	35,139
Total	<u>82,101</u>	<u>78,959</u>

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 Services and Procurement Canada, are not included in SSC's Statement of Operations and Departmental Net Financial Position.

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

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

During the year, SSC provided services without charge to other government departments, related to the provision of IT infrastructure services. These services are not recognized as revenues in the Statement of Operations and Departmental Net Financial Position.

(c) Other transactions with related parties

	<u>2017</u>	<u>2016</u>
	<i>(in thousands of dollars)</i>	
Expenses – Services provided to SSC by other government departments and agencies	214,329	207,582
Revenues – Services provided by SSC to other government departments and agencies	558,171	427,212

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

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

13. Segmented information

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

<i>(in thousands of dollars)</i>	IT Infrastructure Services	Internal Services	2017 Total	2016 Total
Operating expenses				
Salaries and employee benefits	515,535	93,251	608,786	622,731
Telecommunications	499,700	1,560	501,260	475,738
Rentals	374,863	2,366	377,229	262,549
Professional and special services	153,876	33,130	187,006	172,594
Amortization of tangible capital assets	127,307	4,828	132,135	137,017
Machinery and equipment	121,390	8,834	130,224	121,903
Repairs and maintenance	126,565	402	126,967	84,593
Accommodation	30,250	17,480	47,730	45,314
Utilities, materials and supplies	7,124	313	7,437	6,870
Transportation	4,257	1,058	5,315	4,676
Information	244	1,112	1,356	579
Interest on capital lease payments	508	-	508	723
Loss on disposal of tangible capital assets	-	10	10	-
Other expenses	940	34	974	1,307
Total operating expenses	1,962,559	164,378	2,126,937	1,936,594
Revenues				
Sale of goods and services	563,612	1	563,613	435,850
Miscellaneous revenues	591	15	606	890
Revenues earned on behalf of Government	(10,069)	(15)	(10,084)	(7,834)
Total revenues	554,134	1	554,135	428,906
Net cost of operations before government funding and transfers	1,408,425	164,377	1,572,802	1,507,688

**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 ended
March 31, 2017**

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting – Fiscal Year 2016-17

1. Introduction

This document provides summary information on the measures taken by Shared Services Canada (SSC) to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management, assessment results and related action plans.

Detailed information on the department's authority, mandate and program activities can be found in the 2016-17 *Departmental Results Report* and the [2017-18 Departmental Plan](#).

2. Departmental system of internal control over financial reporting

2.1 Internal control management

SSC has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the President, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- An internal attestation process in support of certification by the President and Chief Financial Officer, whereby, senior departmental executives who report to the President attest that they have maintained an effective system of internal control over financial reporting in their area of responsibility;
- Values and ethics;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- Regular monitoring of internal control management, as well as the provision of related assessment results and action plans to the President and departmental senior management and, as applicable, the Departmental Audit Committee.

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

2.2 Service arrangements relevant to financial statements

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

Common Arrangements

- Public Services and Procurement Canada (PSPC) centrally administers the payments of salaries and the procurement of goods and services as per the delegation of authority of other government organizations. PSPC also administers the Receiver General Centrals Systems used by the department to process treasury-related and salary-related transactions;
- The Treasury Board of Canada Secretariat provides SSC with information used to calculate various accruals and allowances, such as the accrued severance liability; and
- The Department of Justice provides legal services to SSC.

Specific Arrangements

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

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting – Fiscal Year 2016-17

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

3. Departmental assessment results during fiscal year 2016-17

The department continued implementing its multi-year plan to carry out documentation, design effectiveness testing and operating effectiveness testing for the assessment of ICFR in key control areas consisting of Entity-Level Controls, Information Technology General Controls (ITGCs) and Business Process Controls. Ongoing monitoring of key controls will be implemented following completion of operating effectiveness testing and the remediation of applicable control deficiencies.

3.1 Design effectiveness testing of key controls

In accordance with the multi-year departmental ICFR assessment plan, SSC completed the documentation and design effectiveness testing of the Payroll and Benefits and the Revenue and Accounts Receivable processes. Progress has been made in the documentation and design effectiveness testing of the Operating Expenses and Accounts Payable process, which will be completed in 2018-19. The documentation of Financial Close and Reporting is expected to begin in 2017-18 and will be completed in 2018-19 to leverage the experience of the 2016-17 year end exercise.

As a result of the design effectiveness testing, SSC identified some control deficiencies that will require remediation. No significant control deficiencies, which would expose the department to an elevated risk of material misstatement of its financial statements, have been identified.

3.2 Operating effectiveness testing of key controls

In accordance with the multi-year departmental ICFR assessment plan, SSC completed the operating effectiveness testing of the Entity-Level Controls and ITGCs over SIGMA, the departmental SAP financial system.

As a result of the operating effectiveness testing, SSC identified some control deficiencies that will require remediation. No significant control deficiencies, which would expose the department to an elevated risk of material misstatement of its financial statements, have been identified.

3.3 Ongoing monitoring of key controls

Commencing in 2017-18, SSC plans to fully implement ongoing monitoring of key controls by 2019-20.

4. Departmental action plan

SSC continued to make good progress on its ICFR assessment. However, as a young department, its progress is affected by the continuing evolution of SSC's business processes and systems in an environment of significant transformation, such as the implementation of a procure to pay system and the government-wide transformation of pay initiative. SSC is planning to complete the assessment of its system of ICFR for most key control areas in 2017-18. At that time, the department will be broadly applying its risk-based ongoing monitoring plan to reassess control performance in key control areas. The status and action plan for the completion of the identified key control areas for the next fiscal year and for subsequent years are shown in the following table.

As a result of the ICFR annual risk assessment, SSC identified control deficiencies related to capital assets accounting. It is currently believed that capital asset disposals are underrepresented. A review of SSC's capital assets and related internal practices is currently underway to address these deficiencies. This work will be leveraged when implementing the below ICFR assessment plan for the capital assets business process.

**Annex to the Statement of Management Responsibility Including Internal Control Over
Financial Reporting – Fiscal Year 2016-17**

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

Key control area	Documentation	Design effectiveness testing	Operational effectiveness testing	Ongoing monitoring
Entity-Level Controls	Completed	Completed	Completed	2017-18
ITGCs over SIGMA	Completed	Completed	Completed	2017-18
ITGCs over Feeder Systems	2018-19	2018-19	2018-19	2019-20
Business Process Controls				
Financial Close and Reporting	2017-18	2017-18	2018-19	2018-19
Operating Expenses and Accounts Payable	2017-18	2017-18	2018-19	2019-20
Revenue and Accounts Receivable	Completed	Completed	2017-18	2018-19
Capital Assets	2017-18	2018-19	2018-19	2019-20
Payroll and Benefits	Completed	Completed	2018-19	2019-20