

PRIVY COUNCIL OFFICE

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, 2016, and all information contained in these statements rests with the management of the Privy Council Office (PCO). 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 PCO's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in PCO'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; organizational arrangements that provide appropriate divisions of responsibility; communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout PCO; and, 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, 2016 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 PCO's system of internal control is reviewed by the work of internal audit staff, who conducts periodic audits of different areas of PCO's operations, and by the Departmental Audit Committee, which provides objective advice and recommendations to the Clerk of the Privy Council and Secretary to the Cabinet on the adequacy and functioning of the department's risk management, control and governance frameworks and processes including the annual financial statements.

These statements have not been subject to an external audit or review but have been shared with the PCO Departmental Audit Committee and they reflect the committee members' comments.

Michael Wernick
Clerk of the Privy Council and Secretary to the Cabinet

Ottawa, Canada
September 2, 2016

Kami Ramcharan
Assistant Deputy Minister, Corporate Services
Chief Financial Officer

PRIVY COUNCIL OFFICE

Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars) 2016 2015

Liabilities

Accounts payable and accrued liabilities (note 4)	13,458	13,359
Vacation pay and compensatory leave	4,386	5,467
Employee future benefits (note 5)	4,423	7,158

Total liabilities	22,267	25,984
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Assets

Financial assets

Due from Consolidated Revenue Fund	11,395	12,147
Accounts receivable and advances (note 6)	1,514	789

Total net financial assets	12,909	12,936
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Departmental net debt	9,358	13,048
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Non-financial assets

Prepaid expenses	599	574
Inventory (note 7)	220	160
Tangible capital assets (note 8)	6,557	6,526

Total non-financial assets	7,376	7,260
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Departmental net financial position	(1,982)	(5,788)
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Contractual obligations (note 9)

Contingent liabilities (note 10)

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

Michael Wernick
Clerk of the Privy Council and Secretary to the Cabinet

Ottawa, Canada
September 2, 2016

Kami Ramcharan
Assistant Deputy Minister, Corporate Services
Chief Financial Officer

PRIVY COUNCIL OFFICE

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31

(in thousands of dollars)	Planned Results 2016	2016	2015
Expenses			
Advice and support to the Prime Minister and portfolio ministers	63,848	63,244	62,000
Advice and support to Cabinet and Cabinet committees	13,943	13,176	13,385
Public service leadership and direction	4,467	3,423	2,629
Internal Services	60,354	59,352	64,717
Total Expenses	142,612	139,195	142,731
Revenues			
Miscellaneous	24	14	21
Internal Services Support	75	75	75
Revenues earned on behalf of Government	(7)	(10)	(6)
Total Revenues	92	79	90
Net cost of operations before government funding and transfers	142,520	139,116	142,641
Government funding and transfers			
Net cash provided by Government		123,299	120,207
Change in due from the Consolidated Revenue Fund		(752)	2,663
Services provided without charge by other government departments (note 10)		20,367	20,653
Transfer of the transition payments for implementing salary payments in arrears (note 12)		(31)	(2,650)
Transfer of tangible capital assets (to) other government departments		39	(30)
Net cost (revenue) of operations after government funding and transfers		(3,806)	1,798
Departmental net financial position - Beginning of year		(5,788)	(3,990)
Departmental net financial position - End of year		(1,982)	(5,788)

Segmented information (note 13)

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

PRIVY COUNCIL OFFICE

Statement of Change in Departmental Net Debt (Unaudited)

For the year ended March 31

(in thousands of dollars)	2016	2015
Net cost (revenue) of operations after government funding and transfers	(3,806)	1,798
Change due to tangible capital assets		
Acquisition of tangible capital assets	1,703	1,779
Amortization of tangible capital assets	(1,699)	(1,652)
Proceeds from disposal of tangible capital assets	(9)	(19)
(Loss) gain on disposal of tangible capital assets	(3)	7
Transfer to other government departments	39	(30)
Total change due to tangible capital assets	31	85
Change due to inventories	60	(126)
Change due to prepaid expenses	25	143
Net increase (decrease) in departmental net debt	(3,690)	1,900
Departmental net debt - Beginning of year	13,048	11,148
Departmental net debt - End of year	9,358	13,048

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

PRIVY COUNCIL OFFICE

Statement of Cash Flow (Unaudited)

For the year ended March 31

(in thousands of dollars)

	2016	2015
Operating activities		
Net cost of operations before government funding and transfers	139,116	142,641
Non-cash items:		
Amortization of tangible capital assets	(1,699)	(1,652)
(Loss) gain on disposal of tangible capital assets	(3)	7
Services provided without charge by other government departments (note 11)	(20,367)	(20,653)
Transition payments for implementing salary payments in arrears (note 12)	31	2,650
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	725	(463)
Increase in prepaid expenses	25	143
Increase (decrease) in inventory	60	(126)
Increase in accounts payable and accrued liabilities	(99)	(2,509)
Decrease (increase) in vacation pay and compensatory leave	1,081	(189)
Decrease (increase) in future employee benefits	2,735	(1,402)
Cash used in operating activities	121,605	118,447
Capital investing activities		
Acquisitions of tangible capital assets (note 8)	1,703	1,779
Proceeds from disposal of tangible capital assets	(9)	(19)
Cash used in capital investing activities	1,694	1,760
Net cash provided by Government of Canada	123,299	120,207

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

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

1. Authority and objectives

PCO is a division of the federal public administration as set out in column 1 of Schedule I.1 of the *Financial Administration Act* and reports to Parliament through the Prime Minister.

PCO reports directly to the Prime Minister and is headed by the Clerk of the Privy Council and Secretary to the Cabinet. The Clerk is also the Head of the Public Service. The mandate of PCO is to serve Canada and Canadians by providing professional, non-partisan advice and support to the Prime Minister, and the ministers within the Prime Minister's portfolio and Cabinet. PCO supports the development of the Government of Canada's policy and legislative agendas, coordinates responses to issues facing the Government and the country, and supports the effective operation of Cabinet.

As the new government, elected in October 2015, carries out its mandate, PCO will advise and support the Prime Minister and portfolio ministers on issues arising from delivery of the Government's agenda. PCO will provide advice and support in assessing implementation, progress and outcomes of priority initiatives and commitments as set out in the 2015 Speech from the Throne and mandate letters to ministers.

Commissions of inquiry established under the *Inquiries Act* are designated as departments under the *Financial Administration Act* and the Prime Minister is designated as the "appropriate Minister" under that same Act. PCO provides administrative and financial management support to commissions of inquiry. There were no active commissions of inquiry in 2015-16.

To achieve its strategic outcome and to deliver results for Canadians, PCO articulates its plans and priorities based on the core programs below.

1.1 Advice and support to the Prime Minister and portfolio ministers

PCO provides professional, non-partisan advice and support to the Prime Minister and portfolio ministers on the full spectrum of issues and policies they address on a daily basis. PCO also provides advice and support on: the structure and organization of government; government-wide communications; Governor-in-Council appointments; the development and implementation of parliamentary and legislative programs; democratic reform; and legal issues. In addition, PCO provides administrative advice and support pertaining to the budgets of the Prime Minister's Office and those of the offices of portfolio ministers.

1.2 Advice and support to Cabinet and Cabinet committees

PCO supports the efficient and effective functioning of Cabinet and Cabinet committees on a day-to-day basis. As part of this work, PCO coordinates departmental policy, legislative and government administration proposals going to Cabinet and its committees; performs a challenge function during the policy development process; and prepares briefing materials and accompanying policy analysis to facilitate Cabinet's decision-making process. PCO also provides a secretariat function for Cabinet and its committees, which includes scheduling and support services for meetings, as well as preparation and distribution of Cabinet documents. In addition, PCO supports effective policy integration across the federal government so that proposals take into account the full range of departmental perspectives and issues related to implementation, such as communications, parliamentary affairs, intergovernmental relations and budget impacts.

1.3 Public service leadership and direction

PCO supports the development and maintenance of a high-quality Public Service that meets the highest standards of accountability, transparency and efficiency. As part of this work, PCO provides advice to the Clerk of the Privy Council, the Deputy Clerk and the Prime Minister on the renewal of Public Service and government operations in order to position the Public Service workforce and workplace for the future as more adaptable, innovative and streamlined. PCO also supports the human resources management of senior leaders across the government, including performance management and leadership development.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

1. Authority and objectives (continued)

1.4 Commissions of inquiry

PCO provides commissions of inquiry with financial and administrative support. As part of this work, PCO can, when necessary, provide ongoing administrative advice and support in the following areas: staffing; acquisition services; contracting; financial services; access to funding; records management; payroll support; publishing information online; translation; legal services; security; and systems support.

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 and not to those provided specifically to a 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

PCO is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to PCO do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2015-16 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 *2015-16 Report on Plans and Priorities*.

(b) Net Cash Provided by Government

PCO operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by PCO is deposited to the CRF, and all cash disbursements made by PCO 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.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

2. Summary of significant accounting policies (continued)

(c) Due from or to the CRF

Amounts due from or to 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 PCO is entitled to draw from the CRF without further authorities to discharge its liabilities.

(d) Expenses

Expenses are recorded on the accrual basis:

- ✓ Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- ✓ Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans and workers' compensation are recorded as operating expenses at their estimated cost.

(e) Revenues

Revenues from regulatory fees are recognized in the accounts based on the services provided in the year. 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-respondable are not available to discharge the PCO's liabilities. While the Clerk of the Privy Council and Secretary to the Cabinet is expected to maintain accounting control, he has no authority regarding the disposition of non-respondable revenues. As a result, non-respondable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of PCO's gross revenues.

(f) Employee future benefits

- ✓ **Pension benefits:** Eligible employees participate in the Public Service Pension Plan, a multi-employer pension plan administered by the Government. PCO's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. PCO's responsibility with regard to the Plan is limited to its contribution. 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

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

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

2. Summary of significant accounting policies (continued)

(h) Contingent liabilities

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

(i) Inventory

Inventory consists of parts, materials and supplies held for future program delivery and not intended for resale. Inventory is valued at cost using the specific identification method. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

(j) Tangible capital assets

Tangible capital assets having an initial cost of \$5,000 or more are recorded at their acquisition cost. PCO does not capitalize intangibles assets, 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
Machinery and equipment	5 to 15 years
Informatics hardware	3 to 5 years
Informatics software	3 to 5 years
Other equipment	10 to 15 years
Motor vehicles	3 to 10 years

Work in progress 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.

(k) 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 allowance of doubtful accounts, 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.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

3. Parliamentary authorities

PCO receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, PCO 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

(in thousands of dollars)	2016	2015
Net cost of operations before government funding and transfers	139,116	142,641
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
Amortization of tangible capital assets	(1,699)	(1,652)
(Loss) gain on disposal of tangible capital assets	(3)	7
Services provided without charge by other government departments	(20,367)	(20,653)
Prepaid expenses previously charged to appropriation	(1,098)	(1,002)
Decrease (increase) in vacation pay and compensatory leave	1,081	(189)
Decrease (increase) in future employee benefits	2,735	(1,402)
Increase in accrued liabilities	-	(300)
Refund of prior years' expenditures	429	309
Other	8	(13)
	(18,914)	(24,895)

Adjustments for items not affecting net cost of operations but affecting authorities:

Acquisition of tangible capital assets	1,703	1,779
Transition payments for implementing salary payments in arrears	31	2,650
Decrease in inventory	60	(126)
Increase in prepaid expenses	1,123	1,145
	2,917	5,448

Current year authorities used	123,119	123,194
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(b) Authorities provided and used

(in thousands of dollars)	2016	2015
Authorities provided:		
Vote 1 - Program expenditures	113,390	113,747
Statutory amounts	13,825	13,478
Less:		
Authorities available for future years	(9)	(18)
Lapsed: Operating	(4,087)	(4,013)
Current year authorities used	123,119	123,194

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)	2016	2015
Accounts payable - External parties	10,810	10,217
Accounts payable - Other government departments and agencies	2,263	2,759
Total accounts payable	13,073	12,976
Accrued liabilities	300	300
Other liabilities	85	83
Total accounts payable and accrued liabilities	13,458	13,359

5. Employee future benefits

(a) Pension benefits

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

The 2015-2016 expense amounts to \$11,983,959 (\$11,681,653 in 2014-2015). For Group 1 members, the expense represents approximately 1.25 times (1.41 times in 2014-2015) the employee contributions and, for Group 2 members, approximately 1.24 times (1.39 times in 2014-2015) the employee contributions.

PCO'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.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

5. Employee future benefits (continued)

(b) Severance benefits

PCO 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)	2016	2015
Accrued benefit obligation - Beginning of year	7,158	5,756
Expense for the year	(388)	2,470
Benefits paid during the year	(2,347)	(1,068)
Accrued benefit obligation - End of year	4,423	7,158

6. Accounts receivable and advances

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

(in thousands of dollars)	2016	2015
Receivables - Other government departments and agencies	1,053	479
Receivables - External parties	392	342
Employee advances	106	13
Subtotal	1,551	834
Allowance for doubtful accounts on receivables from external parties	37	45
Net accounts receivable	1,514	789

7. Inventory

The following table presents details of PCO's inventory, measured at cost using the specific identification method:

(in thousands of dollars)	2016	2015
Office equipment and furniture	217	160
Other	3	-
Total inventory	220	160

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

8. Tangible capital assets

(in thousands of dollars)	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	2016	2015
Machinery and equipment	60	-	-	-	60	38	4	-	-	42	18	22
Informatics hardware	3,738	32	-	(15)	3,755	2,757	353	-	(15)	3,095	660	981
Informatics software	10,714	5	579	-	11,298	7,738	943	-	-	8,681	2,617	2,976
Other equipment	6,921	106	-	(45)	6,982	4,781	374	-	(39)	5,116	1,866	2,140
Motor vehicles	427	55	49	(26)	505	317	25	10	(20)	332	173	110
Work in progress - software	297	825	(579)	-	543	-	-	-	-	-	543	297
Work in progress - other	-	680	-	-	680	-	-	-	-	-	680	-
	22,157	1,703	49	(86)	23,823	15,631	1,699	10	(74)	17,266	6,557	6,526

NOTES:

Net adjustment of \$39,356 (\$49,195 - \$9,839) is due to the transfer of capital assets to other departments.

Adjustments of work in progress represent assets that were put into use in the year and have been transferred to the other capital asset classes as applicable.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

9. Contractual obligations

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

(in thousands of dollars)	2017	2018	2019	2020	2021 and thereafter	Total
Information	614	-	-	-	-	614
Professional and Special Services	2,490	-	-	-	-	2,490
Rental	157	179	533	-	-	869
Repair and Maintenance	2,920	-	-	-	-	2,920
Acquisition of Machinery and Equipment	338	-	-	-	-	338
Total	6,519	179	533	-	-	7,231

In 2017, PCO will be obligated to pay an amount of \$1.5 million to Commissionaires Ottawa and \$1 million to Mindwire Systems LTD for Professional and Special Services. PCO will also be obligated to pay \$2.9 million to Public Services and Procurement Canada for Repair and Maintenance.

10. Contingent liabilities

Claims have been made against PCO in the normal course of operations. These claims include items with specific amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. PCO has recorded in 2014-2015 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.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

11. Related party transactions

PCO is related as a result of common ownership to all government departments, agencies, and Crown corporations. PCO enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, PCO has an agreement with the Security Intelligence Review Committee related to the provision of finance and administration services which is included in revenues of the section b) of this note. During the year, PCO 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, PCO received services without charge from certain common service organizations, related to accommodation, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services provided without charge have been recorded in PCO's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2016	2015
Accommodation	12,569	13,576
Employer's contribution to the health and dental insurance plans	7,797	7,076
Worker's compensation	1	1
Total	20,367	20,653

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 PCO's Statement of Operations and Departmental Net Financial Position. The costs of information technology infrastructure services provided by Shared Services Canada, following the transfer of responsibilities in November 2011 and April 2013, are also not included in PCO's Statement of Operations and Departmental Net Financial Position.

b) Other transactions with related parties

(in thousands of dollars)	2016	2015
Revenues - Other government departments and agencies	75	75
Expenses - Other government departments and agencies	25,366	24,452

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

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

The Government of Canada implemented salary payments in arrears in 2014-2015. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of PCO. However, it did result in the use of additional spending authorities by PCO. Prior to year end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Services and Procurement Canada, who is responsible for the administration of the Government pay system.

PRIVY COUNCIL OFFICE

Notes to the Financial Statements (Unaudited)

For the year ended March 31

13. Segmented information

Presentation by segment is based on PCO'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 main program alignments, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)	Advice and support to the Prime Minister and portfolio ministers	Advice and support to Cabinet and Cabinet committees	Public service leadership and direction	Internal Services	2016	2015
Expenses						
Salaries and Employee Benefits	55,702	12,274	3,026	35,628	106,630	106,983
Professional and Special Services	2,659	483	213	6,133	9,488	10,235
Accommodation	-	-	-	12,569	12,569	13,576
Transportation and Communications	2,362	233	114	609	3,318	3,223
Acquisition of Machinery and Equipment	235	6	33	1,106	1,380	1,206
Repair and Maintenance	36	7	-	1,014	1,057	1,528
Information	1,392	54	9	86	1,541	1,957
Amortization of tangible capital assets	70	-	-	1,629	1,699	1,652
Rentals	424	84	23	520	1,051	1,058
Utilities, Materials and Supplies	163	26	4	435	628	681
Other	201	9	1	(377)	(166)	632
Total Expenses	63,244	13,176	3,423	59,352	139,195	142,731
Revenues						
Miscellaneous	1	-	-	13	14	21
Internal Support Services	-	-	-	75	75	75
Revenues earned on behalf of Government	-	-	-	(10)	(10)	(6)
Total Revenues	1	-	-	78	79	90
Net cost of operations before government funding and transfers	63,243	13,176	3,423	59,274	139,116	142,641

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Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting for Fiscal Year 2015-16

1. Introduction

This document provides summary information on measures taken by PCO 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 PCO's authority, mandate, and programs can be found in our *Report on Plans and Priorities* and Departmental Performance Report:

<http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=rpp/2016-2017/index-eng.htm>

<http://www.pco-bcp.gc.ca/index.asp?lang=eng&page=information&sub=publications&doc=dpr-rmr/2014-2015/index-eng.htm>

2. Departmental system of internal control over financial reporting

2.1 Internal Control Management

PCO recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. PCO's objective is to continually improve its internal control environment using a risk-based approach and targeted resource investment so that the required level of effectiveness is achieved at a manageable cost.

PCO's control environment enables its staff to effectively manage risks through raising awareness, providing appropriate knowledge, as well as developing skill sets. This control environment sets the tone for PCO, and is the foundation for its ICFR. PCO has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal management control framework, approved by the Clerk of the Privy Council, is in place which includes:

- Values and ethics framework;
- Organizational accountability structures as they relate to internal control management to support sound financial management including roles and responsibilities for senior managers in their areas of responsibility;
- Evidence of effective planning and reporting activities which includes multiple financial reviews and regular financial reporting to all managers including senior management;
- Integrated risk management and on-going quality assurance and monitoring activities;
- On-going communication and training on statutory requirements, policies, and procedures for sound financial management and control; and
- Monitoring and regular updates as needed on internal control management plus assessment results and action plan.

Internal audit is responsible for establishing risk-based audit plans that take into consideration the risk assessment related to the ICFR and performs assurance engagements necessary to provide the Deputy Head with independent assurance regarding risk management, control and governance processes.

The Departmental Audit Committee (DAC) engages regularly with management on internal control issues and provides advice to the Clerk of the Privy Council on the adequacy and functioning of the department's risk management, control and governance frameworks and processes.

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2.2 Service Arrangements relevant to financial statements

PCO relies on other government departments for the processing of certain transactions that are recorded in its financial statements as follows:

Common Arrangements:

- Public Services and Procurement Canada centrally administers the payments of salaries and the procurement of certain goods and services and provides accommodation services;
- On behalf of the employer, the Treasury Board Secretariat (TBS) provides PCO with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to PCO; and
- Shared Services Canada (SSC) provides IT infrastructure services to PCO in the areas of data centre and network services. SSC also provides the service for the acquisition and provision of hardware and software for workplace technology devices to PCO. The scope and responsibilities are addressed in the interdepartmental arrangement between SSC and PCO.

Specific Arrangements:

- TBS provides PCO with a SAP financial system platform to capture and report all financial transactions.

3. Departmental assessment results during fiscal year 2015-16

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls - In fiscal year 2015-16, no new processes were documented. However, there were major changes in the existing key controls and in one existing process which will require a reassessment of the process (Payroll). The business process is under review and the new payroll process will be documented and assessed over the next fiscal years.

On-going monitoring program - As part of its rotational on-going monitoring plan, PCO completed its assessment or reassessment of controls related to the following key processes: Vendors Creation, Resource Allocation, Budget Review Exercises, Financial Delegation and Capital Assets. Overall, the controls are effective and risks are mitigated. However, some areas of improvement were noted and the following remediation actions are required to further strengthen the controls.

For Vendors Creation:

- Improve the evidence of review including the approval process; and
- Review and improve the filing and archiving process for vendor files.

For Resource Allocation:

- No remediation required.

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For Budget Review Exercises:

- Improve the consistency of the reporting template; and
- Improve the evidence of approval received by the Secretariats during the process.

For Financial Delegation:

- Develop and implement strategy to ensure all individuals with delegated authority are in compliance with training requirements;
- Improve the evidence of review and supporting documentation kept on file;
- Provide training to individuals involved in the preparation and review of the Specimen Signature Cards;
- Review and improve current forms and tools used in the preparation and review process and establish a desk procedure; and
- Improve timeliness of the cancellation process and evidence of cancellation.

For Capital Assets:

- Improve evidence of review and supporting documentation;
- Review and improve the filing and archiving process for capital asset files;
- Provide training on the capital asset process and capital asset financial coding;
- Conduct an annual review of assets in productive use;
- Improve supporting documentation; and
- Review and improve process for the mid-year and year-end reviews of Work-in-Progress.

A remediation action plan addressing the remediation requirements above is being implemented.

4. Departmental action plan

4.1 Progress during fiscal year 2015-16

PCO conducted its on-going monitoring according to the previous fiscal year's rotational plan as follows:

Previous year's rotational on-going monitoring plan for current year	Status
• Vendors Creation	Completed.
• Resource Allocation	Completed.
• Budget Review Exercises	Completed. Remediation actions are planned.
• Financial Delegation	Completed. Remediation actions are planned.
• Capital Assets	Completed. Remediation actions are planned.

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In 2015-16, in addition to its on-going monitoring, PCO:

- Completed the PCO Fraud Risk Assessment;
- Completed the Audit of Internal Controls over Financial Reporting;
- Completed the Audit of Information Technology Management (report was approved in early 2016-17); and
- Completed the Audit of Recordkeeping Transformation Activities (report was approved in early 2016-17).

4.2 Action plan for the next fiscal year and subsequent years

PCO's rotational on-going monitoring plan over the next fiscal years, based on an annual validation of the high risk processes and controls and related adjustments to the on-going monitoring plan as required, is shown in the following table:

Rotational On-going Monitoring Plan for Internal Control over Financial Reporting			
Key Control Areas	Operating Effectiveness Testing Rotation		
	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Entity Level			
Other Goods and Services		X	
Travel Expenses		X	
Payroll			X
Financial Delegation	X		X
Accounts Receivable and Deposits		X	
Specified Purpose Accounts			X
Payable at year-end (PAYE) and Monthly Accruals			X
Contingent Liabilities			
Capital Assets	X		X
Budgets Review Exercises	X		
Resource Allocation	X		
Vendors Creation	X		
Other Operating Expenditures		X	
Departmental Net Asset (Liabilities)		X	
Acquisition Cards			X
Events			X

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Changes occurred in the Key Control Areas to ensure proper alignment with the Internal Control over Financial Reporting Framework. New Key Controls Areas were also identified as a result of the risk assessment for fiscal year 2015-16.

Fiscal year 2015-16 was the last year on the three year plan that was established in fiscal year 2013-14. A new plan was established for fiscal year 2016-17 to fiscal 2018-19.

In addition in 2016-17, PCO will undertake the activities listed below.

- Complete the in-progress Audit of the Management and Use of Acquisition Cards;
- Complete the in-progress Performance Measurement Strategy for PCO's Central Innovation Hub;
- Complete the in-progress Risk Assessment of PCO's Personal Information Holdings;
- Conduct the planned Review of PCO's Performance Management Framework for Employees;
- Conduct the planned Audit of PCO's Accounts Payable Function;
- Conduct the planned Joint Audit of the New Process for Reviewing Cabinet Confidence Information for Exclusion from Disclosure; and
- Conduct the planned Audit of PCO's Parliamentary Returns Process.