

# STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2011, and all information contained in these statements rests with the management of the Correctional Service Canada (CSC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

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

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

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

An assessment for the year ended March 31, 2011 was completed in accordance with the *Policy on Internal Control* and the results and action plans are summarized in the annex.

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

# STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING

## CORRECTIONAL SERVICE CANADA

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

CSC's financial statements have not been audited.

Signed by \_\_\_\_\_  
Don Head, Commissioner  
Ottawa, Canada  
August 29, 2011

Signed by \_\_\_\_\_  
Liette Dumas-Sluyter, CMA  
Chief Financial Officer

## STATEMENT OF FINANCIAL POSITION (unaudited)

### CORRECTIONAL SERVICE CANADA

As at March 31

	2011	2010
<i>(in thousands of dollars)</i>		
<b>Assets</b>		
<b>Financial assets</b>		
Due from Consolidated Revenue Fund	206,249	170,139
Accounts receivable, advances and loans (note 4)	11,385	8,761
Inventory held for resale (note 5)	7,860	10,896
<i>Total financial assets</i>	<b>225,494</b>	189,796
<b>Non-financial assets</b>		
Prepaid expenses	242	1,394
Inventory not for resale (note 5)	36,732	38,473
Tangible capital assets (note 6)	1,392,755	1,323,530
<i>Total non-financial assets</i>	<b>1,429,729</b>	1,363,397
<b>Total</b>	<b>1,655,223</b>	1,553,193
<b>Liabilities and Equity of Canada</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 7)	233,436	211,000
Deferred revenue (note 8)	213	164
Vacation pay and compensatory leave	60,214	60,043
Employee future benefits (note 9)	272,083	240,119
Inmate trust fund (note 10)	17,340	16,379
<i>Total liabilities</i>	<b>583,286</b>	527,705
<b>Equity of Canada</b>	<b>1,071,937</b>	1,025,488
<b>Total</b>	<b>1,655,223</b>	1,553,193

Contingent liabilities (note 11)  
Contractual obligations (note 12)

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

Signed by \_\_\_\_\_  
Don Head, Commissioner  
Ottawa, Canada  
August 29, 2011

Signed by \_\_\_\_\_  
Liette Dumas-Sluyter, CMA,  
Chief Financial Officer

## STATEMENT OF OPERATIONS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

(in thousands of dollars)

	2011	2010 <i>(Restated note 15)</i>
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#### Expenses

Custody	1,497,991	1,293,437
Correctional Interventions	530,769	498,484
Community Supervision	112,476	204,296
Internal Services	374,410	372,073
<i>Total expenses</i>	<b>2,515,646</b>	2,368,290

#### Revenues

Custody	3,574	2,855
Correctional Interventions	52,214	46,322
Community Supervision	6	14
Internal Services	82	82
<i>Total revenues</i>	<b>55,876</b>	49,273

<b>Net Cost of Operations</b>	<b>2,459,770</b>	2,319,017
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Segmented information (note 14)

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

## STATEMENT OF EQUITY OF CANADA (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

	2011	2010
<i>(in thousands of dollars)</i>		
<b>Equity of Canada, opening balance</b>	<b>1,025,488</b>	981,669
Net cost of operations	<b>(2,459,770)</b>	(2,319,017)
Net cash provided by Government	<b>2,333,477</b>	2,314,664
Change in due from the Consolidated Revenue Fund	<b>36,110</b>	(83,642)
Transfer of tangible capital assets to other Government Departments (note 6)	<b>(274)</b>	-
Services provided without charge by other Government departments (note 13a)	<b>136,906</b>	131,814
<b>Equity of Canada, closing balance</b>	<b>1,071,937</b>	1,025,488

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

## STATEMENT OF CASH FLOW (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

	2011	2010
<i>(in thousands of dollars)</i>		
<b>Operating activities</b>		
Net cost of operations	2,459,770	2,319,017
<b>Non-cash items:</b>		
Amortization of tangible capital assets	(85,663)	(82,415)
Net loss on disposal of tangible capital assets	(2,345)	(593)
Tangible capital assets adjustments	972	233
Services provided without charge by other Government departments (note 13a)	(136,906)	(131,814)
<b>Variations in Statement of Financial Position:</b>		
Increase (decrease) in accounts receivable, advances and loans	2,624	(18,875)
Increase (decrease) in prepaid expenses	(1,152)	943
Increase (decrease) in inventory	(4,777)	2,395
Decrease (increase) in liabilities	(55,581)	106,761
<b>Cash used in operating activities</b>	<b>2,176,942</b>	<b>2,195,652</b>
<b>Capital investment activities</b>		
Acquisitions of tangible capital assets	157,874	120,469
Proceeds from disposal of tangible capital assets	(1,339)	(1,457)
<b>Cash used in capital investment activities</b>	<b>156,535</b>	<b>119,012</b>
<b>Net cash provided by Government of Canada</b>	<b>2,333,477</b>	<b>2,314,664</b>

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

# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 1. Authority and Objectives

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

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

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

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

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

Internal Services: Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of the organization. These groups are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that are not provided specifically to a program.

# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 2. Summary of Significant Accounting Policies

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

**Significant accounting policies are as follows:**

***a) Parliamentary authorities***

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

***b) Consolidation***

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

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

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

***d) Due from the Consolidated Revenue Fund (CRF)***

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



# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

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

#### *e) Revenues*

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

#### *f) Expenses*

Expenses are recorded on the accrual basis:

- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment;
- Services provided without charge by other Government departments for accommodation, employer contribution to the health and dental insurance plans, legal services and worker's compensation are recorded as operating expenses at their estimated cost;
- Grants are recognized in the year in which the conditions for payment are met;
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement provided that the transfer is authorized and a reasonable estimate can be made.

# NOTES TO THE FINANCIAL STATEMENTS (unaudited)

## CORRECTIONAL SERVICE CANADA

For the year ended March 31

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

#### *g) Employee future benefits*

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

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

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

#### *i) Contingent liabilities*

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

#### *j) Environmental liabilities*

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

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

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

### k) Inventories

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

### l) Tangible capital assets

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

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

### *m) Measurement uncertainty*

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

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 3. Parliamentary Authorities

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

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

<i>(in thousands of dollars)</i>	<b>2011</b>	<b>2010</b>
Net cost of operations	<b>2,459,770</b>	2,319,017
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
<i>Add (Less):</i>		
Amortization of tangible capital assets	<b>(85,663)</b>	(82,415)
Net loss on disposal of tangible capital assets	<b>(2,345)</b>	(593)
Services provided without charge by other Government departments (note 13a)	<b>(136,906)</b>	(131,814)
Variation in vacation pay and compensatory leave	<b>(171)</b>	(1,276)
Variation in employee future benefits	<b>(31,964)</b>	27,822
Revenue not available for spending	<b>21,315</b>	5,777
Variation in contingent liabilities	<b>(1,698)</b>	4,443
Other	<b>775</b>	201
	<b>(236,657)</b>	(177,855)
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
<i>Add (Less):</i>		
Acquisitions of tangible capital assets	<b>157,874</b>	120,469
Deferred revenue	<b>(49)</b>	-
Inventory	<b>(4,777)</b>	2,395
Prepaid expenses	<b>(1,152)</b>	1,077
	<b>151,896</b>	123,941
<b>Current year authorities used</b>	<b>2,375,009</b>	2,265,103

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 3. Parliamentary Authorities (continued)

#### b) Authorities provided and used:

	2011	2010
<i>(in thousands of dollars)</i>		
Vote 30 – Operating expenditures	1,985,892	1,900,182
Vote 35 – Capital expenditures	337,311	246,800
Statutory amounts	236,487	232,259
	<b>2,559,690</b>	<b>2,379,241</b>
Less:		
Authorities available for future years	16,101	10,704
Lapsed authorities: Operating	54,117	56,991
Lapsed authorities: Capital	114,463	46,443
<b>Current year authorities used</b>	<b>2,375,009</b>	<b>2,265,103</b>

The 2010-2011 capital lapsed authorities include \$60,000,000 re-profiled into future years.

### 4. Accounts Receivable, Advances and Loans

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

	2011	2010
<i>(in thousands of dollars)</i>		
Receivables from other Government departments and agencies	6,564	4,540
Receivables from external parties	6,241	5,716
Employee advances	339	256
Parolee loans and advances to individuals other than employees	15	3
	<b>13,159</b>	<b>10,515</b>
Allowance for doubtful accounts on receivables from external parties and parolee loans	(1,774)	(1,754)
<b>Total</b>	<b>11,385</b>	<b>8,761</b>

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

#### 5. Inventory

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

	2011	2010
<i>(in thousands of dollars)</i>		
Inventory held for resale		
Raw materials	4,706	5,060
Work in progress	161	309
Finished goods	3,557	5,886
Agribusiness	44	227
	8,468	11,482
Provision for obsolete inventory	(608)	(586)
Total inventory held for resale	7,860	10,896
Inventory not for resale		
Supplies	13,933	13,956
Clothing	11,728	11,595
Building materials	4,632	4,884
Utilities	1,669	4,742
Other	4,770	3,296
Total inventory not for resale	36,732	38,473
<b>Total</b>	<b>44,592</b>	<b>49,369</b>

The cost of consumed inventory recognized as an expense in the Statement of Operations is \$193,783,851 in 2010-2011 (\$178,474,633 in 2009-2010).

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 6. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	Cost					Accumulated Amortization				Net Book Value	
	Opening balance	Acquisitions	Disposals and adjustments	Transfers of assets under construction	Closing balance	Opening balance	Amortization	Disposals and adjustments	Closing balance	2011	2010
Land	12,467	-	(80)	2,437	14,824	-	-	-	-	14,824	12,467
Buildings	1,535,919	-	520	27,392	1,563,831	682,349	47,489	(1,320)	728,518	835,313	853,570
Works and infrastructure	436,356	-	(7,273)	4,479	433,562	311,607	17,652	(6,951)	322,308	111,254	124,749
Machinery and equipment	241,093	26,147	(12,570)	-	254,670	119,741	12,322	(11,406)	120,657	134,013	121,352
Vehicles	53,208	8,635	(8,102)	-	53,741	28,946	5,289	(6,598)	27,637	26,104	24,262
Leasehold improvements	14,722	-	(53)	2,043	16,712	1,307	2,911	(12)	4,206	12,506	13,415
Assets under construction	173,715	123,092	(1,715)	(36,351)	258,741	-	-	-	-	258,741	173,715
<b>Total</b>	<b>2,467,480</b>	<b>157,874</b>	<b>(29,273)</b>	<b>-</b>	<b>2,596,081</b>	<b>1,143,950</b>	<b>85,663</b>	<b>(26,287)</b>	<b>1,203,326</b>	<b>1,392,755</b>	1,323,530

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

In 2010-2011, CSC's revolving fund (CORCAN) transferred machinery and equipment, and vehicles with a net book value of \$273,566 to Agriculture and Agri-Food.



## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 7. Accounts Payable and Accrued Liabilities

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

	2011	2010
<i>(in thousands of dollars)</i>		
Accounts payable to other Government departments and agencies	61,851	55,128
Accounts payable to external parties	86,763	86,132
	148,614	141,260
Contingent liabilities (note 11)	11,901	10,203
Accrued liabilities	72,921	59,537
<b>Total</b>	<b>233,436</b>	<b>211,000</b>

## 8. Deferred Revenue

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

	2011	2010
<i>(in thousands of dollars)</i>		
Opening balance	164	516
Amounts received	2,286	3,950
Revenue recognized	(2,237)	(4,302)
<b>Ending balance</b>	<b>213</b>	<b>164</b>

## 9. Employee Future Benefits

### a) Pension Benefits:

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

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 9. Employee Future Benefits (continued)

Both the employees and CSC contribute to the cost of the Plan. The 2010-2011 expense amounts to \$161,394,807 (\$164,466,302 in 2009-2010), which represents approximately 1.9 times (1.9 in 2009-2010) the contributions by employees.

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

### *b) Severance benefits:*

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

	2011	2010
<i>(in thousands of dollars)</i>		
Accrued benefit obligation, opening balance	240,119	267,941
Expenses for the year	51,089	(10,554)
Benefits paid during the year	(19,125)	(17,268)
<b>Accrued benefit obligation, closing balance</b>	<b>272,083</b>	<b>240,119</b>

## 10. Inmate Trust Fund

Pursuant to section 111 of the *Corrections and Conditional Release Regulations*, the Inmate Trust Fund is credited with moneys received from inmates at the time of incarceration, net of earnings of inmates from employment inside institutions, moneys received for inmates while in custody, moneys received from sales of hobbycraft, moneys earned through work while on day parole, and interest. Disbursements may occur either at the time of release or for inmate purchases in line with rehabilitation programs.

	2011	2010
<i>(in thousands of dollars)</i>		
Opening balance	16,379	15,524
Receipts	42,604	40,689
Disbursements	(41,643)	(39,834)
<b>Closing balance</b>	<b>17,340</b>	<b>16,379</b>

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 11. Contingent Liabilities

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

### a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where CSC is obligated or likely to be obligated to incur such costs. CSC has identified approximately 59 sites (60 in 2009-2010) where such action is possible and for which a liability of \$9,244,357 (\$9,176,768 in 2009-2010) has been recorded in accrued liabilities. CSC has estimated additional clean-up costs of \$6,755,500 (\$6,201,000 in 2009-2010) that are not accrued, as these are not considered likely to be incurred at this time. CSC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by CSC in the year in which they become likely and can be reasonably estimated.

### b) Claims and litigations

Claims have been made against CSC in the normal course of operations. These claims include items with identified amounts, and others for which no amount is specified. Based on CSC's assessment, legal proceedings for claims estimated at \$1,965,000 (\$1,410,000 in 2009-2010) were pending as at March 31, 2011. Some of these potential liabilities may become actual liabilities when one or more future event(s) occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

## 12. Contractual Obligations

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

<i>(in thousands of dollars)</i>	2012	2013	2014	2015	2016 and thereafter	Total
Acquisition of goods and services	19,639	19,639	19,639	16,988	3,932	79,837

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

### 13. Related Party Transactions

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

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

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

	2011	2010
<i>(in thousands of dollars)</i>		
Employer's contribution to the health and dental insurance plans	113,916	108,980
Accommodation	15,481	14,530
Workers' compensation	5,452	5,686
Legal services	2,057	2,618
<b>Total</b>	<b>136,906</b>	<b>131,814</b>

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

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

	2011	2010
<i>(in thousands of dollars)</i>		
Expenses – Other Government departments and agencies	344,032	343,876
Revenues – Other Government departments and agencies	30,733	29,074

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

## 14. Segmented Information

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

	2011				2010	
	Custody	Correctional Interventions	Community Supervision	Internal Services	Total	Total
<i>(in thousands of dollars)</i>						
<b>Transfer payments</b>						
Non-profit organizations	-	1,045	288	-	<b>1,333</b>	1,412
Individuals	147	-	-	-	<b>147</b>	209
<b>Total transfer payments</b>	<b>147</b>	<b>1,045</b>	<b>288</b>	<b>-</b>	<b>1,480</b>	<b>1,621</b>
<b>Operating expenses</b>						
Salaries and employee benefits	1,068,565	406,233	20,126	266,049	<b>1,760,973</b>	1,639,752
Professional and special services	97,812	57,403	80,222	43,184	<b>278,621</b>	262,769
Utilities, maintenance and supplies	115,213	8,451	1,770	8,684	<b>134,118</b>	120,880
Amortization of tangible capital assets	83,586	2,077	-	-	<b>85,663</b>	82,415
Repairs and maintenance	51,750	1,393	9	14,777	<b>67,929</b>	77,294
Machinery and equipment	26,387	2,516	66	8,959	<b>37,928</b>	33,904
Travel	9,663	7,578	1,230	12,869	<b>31,340</b>	32,225
Payment in lieu of taxes	28,929	-	-	-	<b>28,929</b>	27,619
Inmate pay	-	22,261	-	-	<b>22,261</b>	21,479
Cost of goods sold	-	17,431	-	-	<b>17,431</b>	15,330
Accommodation	-	-	8,230	7,251	<b>15,481</b>	14,530
Telecommunications	1,663	163	172	9,553	<b>11,551</b>	11,869
Rentals	8,387	2,018	273	4,286	<b>14,964</b>	11,521
Relocation	921	658	33	4,665	<b>6,277</b>	5,862
Net loss on disposal of tangible capital assets	1,374	979	-	(8)	<b>2,345</b>	593
Other	3,594	563	57	(5,859)	<b>(1,645)</b>	8,627
<b>Total operating expenses</b>	<b>1,497,844</b>	<b>529,724</b>	<b>112,188</b>	<b>374,410</b>	<b>2,514,166</b>	<b>2,366,669</b>
<b>Total Expenses</b>	<b>1,497,991</b>	<b>530,769</b>	<b>112,476</b>	<b>374,410</b>	<b>2,515,646</b>	<b>2,368,290</b>
<b>Revenues</b>						
Sales of goods and services	1,305	51,553	-	-	<b>52,858</b>	46,932
Other	2,269	661	6	82	<b>3,018</b>	2,341
<b>Total Revenues</b>	<b>3,574</b>	<b>52,214</b>	<b>6</b>	<b>82</b>	<b>55,876</b>	<b>49,273</b>
<b>Net Cost of Operations</b>	<b>1,494,417</b>	<b>478,555</b>	<b>112,470</b>	<b>374,328</b>	<b>2,459,770</b>	<b>2,319,017</b>

## NOTES TO THE FINANCIAL STATEMENTS (unaudited)

### CORRECTIONAL SERVICE CANADA

For the year ended March 31

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

In 2010-2011, CSC detected a misallocation of the 2009-2010 Salaries and employee benefits expenses between program activities. Total expenses remain accurate, but in order to realign comparative information, expenses by program activity have been restated as follows:

<i>(in thousands of dollars)</i>	<b>2010 (As previously stated)</b>	<b>Adjustment</b>	<b>2010 (Restated)</b>
Custody	1,430,641	(137,204)	1,293,437
Correctional Interventions	547,878	(49,394)	498,484
Community Supervision	206,832	(2,536)	204,296
Internal Services	182,939	189,134	372,073
<b>Total</b>	<b>2,368,290</b>	<b>-</b>	<b>2,368,290</b>

#### 16. Comparative Information

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

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

## CORRECTIONAL SERVICE CANADA

### SUMMARY OF THE ASSESSMENT OF EFFECTIVENESS OF THE SYSTEMS OF INTERNAL CONTROL OVER FINANCIAL REPORTING FOR FISCAL YEAR 2010-2011 AND THE ACTION PLAN OF CORRECTIONAL SERVICE CANADA

#### NOTE TO THE READER

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

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

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

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

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

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

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

## CORRECTIONAL SERVICE CANADA

### 1. INTRODUCTION

This document is attached to Correctional Service Canada's (CSC) Statement of Management Responsibility Including Internal Control over Financial Reporting for the fiscal year 2010-2011. As required by the new Treasury Board Policy on Internal Control, effective April 1, 2009, for the first time, this document provides summary information on the measures taken by CSC to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by CSC as at March 31, 2011, including progress, results and related action plans along with some financial highlights relevant to understanding the control environment unique to the department.

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

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

#### 1.2. Financial Highlights

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

- CSC expenses were \$2,516 million (\$2,368 million in 2009-2010). Salaries and employee benefits expenses represent the majority of expenses at 70% or \$1,761 million (69% or \$1,640 million in 2009-2010). CSC has approximately 17,900 employees. Expenses by program activity were as follows:
  - Custody: 60% or \$1,498 million (55% or \$1,293 million in 2009-2010);
  - Correctional Interventions: 21% or \$531 million (21% or \$499 million in 2009-2010);
  - Community Supervision: 4% or \$112 million (9% or \$204 million in 2009-2010);
  - Internal Services: 15% or \$374 million (15% or \$372 million in 2009-2010);
- Total revenues were \$56 million (\$49 million in 2009-2010) and stem mostly from the sales of goods and services by CSC's revolving fund (CORCAN);
- Tangible capital assets represent 84% or \$1,393 million of departmental total assets (85% or \$1,324 million in 2009-2010).

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

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



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

## CORRECTIONAL SERVICE CANADA

### 1.3. Service Arrangements Relevant to Financial Statements

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

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

### 1.4 Significant Changes in Fiscal-Year 2010-2011

In 2010-2011, there were no significant operational changes affecting the financial statements. However, the *Truth in Sentencing Act* and the *Tackling Violent Crime Act* are two pieces of legislation which will have an impact on CSC. As a result of these legislative changes, CSC forecasts that its offender population will significantly increase and this will have an impact on operations. Accommodation and population management strategies have been implemented to address this increase.

## 2. CSC CONTROL ENVIRONMENT RELEVANT TO ICFR

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

### 2.1. Key Positions, Roles and Responsibilities

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

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

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

## CORRECTIONAL SERVICE CANADA

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

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

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

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

## 2.2. Key Measures taken by CSC

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

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

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

## CORRECTIONAL SERVICE CANADA

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

#### 3.1 Assessment Baseline

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

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

Over time, departments are assessing the design and operating effectiveness of their system of ICFR and are putting in place on-going monitoring programs to sustain and continuously improve their departmental system of ICFR.

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

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

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

#### 3.2 Approach to CSC's Assessment

In preparation for a control-based audit, CSC had its internal financial controls reviewed in 2006. This assessment indicated that, even though the risk is not a major concern, documentation of entity level and general computerized controls could be enhanced. It also revealed that developing standardized national business processes would contribute to a greater reduction of the transactional business risks. Following those observations, CSC initially focussed on the documentation and standardization of its business processes.

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

### CORRECTIONAL SERVICE CANADA

A review of business processes was completed in order to identify the ones that are most significant based on risk (materiality, volumes and complexity of transactions, geographic dispersion, susceptibility to losses/frauds, areas subject to audit observations, past history, external attention, and reliance on third-parties). In accordance with the Policy on Internal Controls, CSC has developed a multi-year plan to assess its system of ICFR for the following seventeen business processes where the priority has been set in accordance of the risk assessment made<sup>1</sup>:

- Salaries
- Travel
- Hospitality
- CSC/CORCAN Intradepartmental Transactions
- Departmental Bank Accounts
- Interdepartmental Settlements
- Procurement / Contracting
- Payables / Payments
- Tangible Capital Assets / Amortization
- Financial Statement Close
- Inmate Trust Fund
- Inventory
- Assets Under Construction
- Reconciliations / GL Adjustments
- Sales / Receivables / Receipts (including the allowance for doubtful accounts)
- Contingent Liabilities
- Environmental Liabilities

For each significant business process, CSC is gathering information on current practices, documentation, risks and controls relevant to ICFR, including appropriate policies and procedures; maps business processes with the identification and documentation of key risk and control points; issues national and standardized business processes for implementation; designs key control testing approaches and methodologies; selects statistical sample transactions for key controls assessment; and assesses operational effectiveness of key controls.

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

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

## CORRECTIONAL SERVICE CANADA

Currently, CSC has performed risk analysis, reviewed and standardized business processes, including key control identification, for salaries, travel, allowance for doubtful accounts, hospitality and CSC/CORCAN intradepartmental transactions. These processes are covering over 70% of CSC's total expenditures. Also, significant progress has been made for the Departmental Bank Accounts, Payables / Payments (Account Verification Directive) and the Procurement / Contracting business processes.

### 4. CSC ASSESSMENT RESULTS

As a result of the assessment approach described above, CSC developed a baseline architecture of key control points for each significant business process that has been reviewed and standardized. In documenting and standardizing those processes and key controls, CSC is also addressing the design effectiveness as a prerequisite to testing operating effectiveness.

#### 4.1 Design Effectiveness of Key Controls

As explained earlier, based on process risks, CSC is identifying key controls to be tested at the same time significant business processes are being developed, standardized and documented. CSC ensures that every identified risk is aligned with one (or a group of) key controls. The design effectiveness of key controls has been successfully tested for the following significant business process:

- Salaries
- Travel
- Allowance for doubtful accounts
- Hospitality
- CSC/CORCAN Intradepartmental transactions

After issuing each standardized significant business process, processing sites have a transition period to adopt and change their practices to comply with the new standardized process. This transition period varies depending of the complexity and anticipated level of change a newly issued standardized business process requires. If necessary, remediation requirements are addressed. These activities are conducted at each transaction processing site, including National Headquarters, Regional Headquarters, Institutions and Parole Offices.

After the transition period, CSC can then assess the operating effectiveness of key controls to ensure whether the standardized business process is implemented, corresponds to new practices and internal controls are followed.

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

## CORRECTIONAL SERVICE CANADA

### 4.2 Operating Effectiveness of Key Controls

As at year-end 2010-2011, CSC has completed the operating effectiveness testing of the salaries, travel and allowance for doubtful accounts processes. We continue to build on the work and reviews performed in previous years in order to ensure controls are being applied and business processes are kept up to date. The results are as follows:

#### ***Salaries***

CSC has categorized salary transactions into three categories based on risk. An established set of review steps are being performed prior to the issuance of any and all salary payments in the high risk category (cash out, severance pay and taken on strength payments). A sample of the Medium risk category payments (retroactive, allowances, overtime, acting, casual and student salary payments) is selected for post payment review. No review is being performed on the low risk category payments (systematic regular salary transactions) since those payments are low in risk and were fully reviewed prior to the first payment (i.e. the initial transaction fell in the high risk category).

A sample of transactions was selected to ensure controls were being applied. Testing has revealed that internal controls are generally applied. Testing has also revealed that, for some transactions, there is a need to improve the documentation in order to demonstrate payments were properly authorized. Where feasible, immediate remediation measures were implemented. An action plan has also been developed for 2011-2012 to address the remaining issues.

#### ***Travel***

CSC has categorized travel transactions into two categories based on risk. High risk travel transactions are fully reviewed prior to processing, while low risk transactions have a few key verifications completed before being processed. There is currently no medium risk category and the internal control process has no provision for post-audit review.

A sample of travel transactions was tested to assess the operating effectiveness of the controls. Testing has revealed that internal controls are generally applied. There has been improvement in the documentation of key controls, the uniformity of application, and the quality of travel information recorded in the financial system. However, proper authorization of payments has also been identified as an area requiring more attention. Where feasible, immediate remediation measures were implemented. An action plan for 2011-2012 has also been developed to address the remaining issues.

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

## CORRECTIONAL SERVICE CANADA

### *Allowance for doubtful accounts*

Based on the nature of this account, all regional allowance for doubtful accounts assessments were reviewed as of March 31, 2011. Operating effectiveness testing has revealed that internal financial controls are being applied.

## 4.3 On-going Monitoring Program

As part of the on-going monitoring program, CSC will continue to assess internal financial controls for the business processes where the design effectiveness of key controls is completed. Completing significant business process documentation, control design and operating effectiveness testing better prepares CSC to identify, analyze and document entity level and general computerized controls. This will help CSC ensure there is a well-integrated and comprehensive monitoring program in place that raises awareness and understanding of the department's system of ICFR at all levels, provide staff with the knowledge, skills and tools needed, and reinforce appropriate behaviours.

## 5. CSC ACTION PLAN

### 5.1 Progress as of March 2011

Consistent with the 2010-2011 plan, CSC has continued to make significant progress in assessing and improving its key controls.

CSC has completed the following work:

- Continued strengthening awareness of the importance of the Internal Financial Controls Initiative across the department;
- Updated the Internal Financial Controls Initiative work plan (including operating effectiveness testing in cooperation with the Internal Audit Branch);
- Consistent with the action plan from 2009-2010, developed training materials and provided training to financial officers, financial specialists, and human resources compensation advisors across the country, which included clarifying the roles and responsibilities within the Financial and Human Resources areas; and
- Reviewed operating effectiveness controls for the selected business processes.

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

## CORRECTIONAL SERVICE CANADA

CSC has also substantially advanced work in the following areas:

- Review of the travel and hospitality verification directives;
- Update of the Departmental Bank Account business process;
- Documentation of the Account Verification Directive and the Procurement / Contracting business processes;
- Documentation of the Payables / Payments business process; and
- Review the Tangible Capital Assets / Amortization business processes (and other related components).

## 5.2 Action Plan for the Coming Years

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

By the end of 2011-2012, CSC plans to:

- Implement the remediation plans established following the internal control operating effectiveness tests;
- Initiate testing the operating effectiveness of controls for the salaries (high risk) transactions on an ongoing basis;
- Issue the updated directive for the Travel and Hospitality business processes;
- Issue the updated Departmental Bank Account business process;
- Issue the Account Verification Directive;
- Document the Procurement / Contracting and the Payables / Payment business processes;
- Complete the assessment for the implementation of the Tangible Capital Assets / Amortization standardized processes (and related components);
- Initiate the review and standardization of documents for other significant business processes.



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

### CORRECTIONAL SERVICE CANADA

For the following years, CSC plans to:

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