

BUILDING A **SAFE AND RESILIENT CANADA**



FINANCIAL STATEMENTS FOR THE YEAR ENDED

March 31, 2018

Public Safety and Emergency Preparedness

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, 2018, and all information contained in these statements rests with the management of the Department of Public Safety and Emergency Preparedness (PSEP). 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 PSEP's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada and included in PSEP's *Departmental Results Report*, is consistent with these financial statements.

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

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

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

A risk-based assessment of the system of ICFR for the year ended March 31, 2018 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 PSEP's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of PSEP's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister of PSEP.

The financial statements of PSEP have not been audited.

Original signed by Malcolm Brown

Original signed by Caroline Weber

Malcolm Brown

Deputy Minister
Ottawa, Canada

Caroline Weber

Chief Financial Officer and Assistant Deputy Minister
Corporate Management Branch
Ottawa, Canada

Ottawa, Canada
August 22, 2018

Public Safety and Emergency Preparedness

Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)

2018 2017

Liabilities

Accounts payable and accrued liabilities (note 4)	494,877	471,261
Vacation pay and compensatory leave	6,591	5,149
Employee future benefits (note 5)	4,934	4,890
Disaster Financial Assistance Arrangements (DFAA) (note 6)	1,965,544	1,824,738

Total liabilities 2,471,946 2,306,038

Financial assets

Due from Consolidated Revenue Fund	490,926	468,734
Accounts receivable and advances (note 7)	6,060	4,349

Total financial assets 496,986 473,083

Departmental net debt 1,974,960 1,832,955

Non-financial assets

Tangible capital assets (note 8)	12,487	13,668
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Total non-financial assets 12,487 13,668

Departmental net financial position (1,962,473) (1,819,287)

Contractual obligations (note 9)

Contingent liabilities (note 10)

The accompanying notes form an integral part of these financial statements

Original signed by Malcolm Brown

Original signed by Caroline Weber

Malcolm Brown

Deputy Minister
Ottawa, Canada

Caroline Weber

Chief Financial Officer and Assistant Deputy Minister
Corporate Management Branch
Ottawa, Canada

Ottawa, Canada
August 22, 2018

Public Safety and Emergency Preparedness

Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31

(in thousands of dollars)

	2018 Planned Results	2018	2017
Expenses			
Emergency Management	705,185	778,372	765,409
Countering Crime	215,923	182,966	172,914
Internal Services	58,860	67,952	62,374
National Security	32,762	30,138	50,059
Border Strategies	2,704	11,594	4,106
Total expenses	1,015,434	1,071,022	1,054,862
Revenues			
Interdepartmental provision of internal support services	1,800	2,045	2,063
Miscellaneous revenues	130	59	47
Revenues earned on behalf of government	(130)	(59)	(47)
Total revenues	1,800	2,045	2,063
Net cost of operations before government funding and transfers	1,013,634	1,068,977	1,052,799
Government funding and transfers			
Net cash provided by Government		881,899	988,125
Change in due from the Consolidated Revenue Fund		22,192	195,548
Services provided without charge by other government departments (note 11)		21,700	21,642
Transfer of assets from other government department (note 8)		0	18
Net cost of operations after government funding and transfers		143,186	(152,534)
Departmental net financial position – Beginning of year		(1,819,287)	(1,971,821)
Departmental net financial position – End of year		(1,962,473)	(1,819,287)

Segmented information (note 13)

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

Public Safety and Emergency Preparedness

Statement of Change in Departmental Net Debt (Unaudited)

For the year ended March 31

(in thousands of dollars)

	2018	2017
Net cost of operations after government funding and transfers	143,186	(152,534)
Change due to tangible capital assets		
Acquisition of tangible capital assets	1,301	1,509
Amortization of tangible capital assets	(2,474)	(2,677)
Proceeds from disposal of tangible capital assets	(8)	0
Transfer to other Government Departments (note 8)	0	18
Total change due to tangible capital assets	(1,181)	(1,150)
Net increase (decrease) in departmental net debt due to operations	142,005	(153,684)
Departmental net debt – Beginning of year	1,832,955	1,986,639
Departmental net debt – End of year	1,974,960	1,832,955

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

Public Safety and Emergency Preparedness

Statement of Cash Flows (Unaudited)

For the year ended March 31

(in thousands of dollars)

	2018	2017
Operating activities		
Net cost of operations before government funding and transfers	1,068,977	1,052,799
Non-cash items:		
Amortization of tangible capital assets	(2,474)	(2,677)
Services provided without charge by other government departments (note 11)	(21,700)	(21,642)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	1,711	2,395
Decrease (increase) in accounts payable and accrued liabilities	(23,616)	(196,650)
Decrease (increase) in vacation pay and compensatory leave	(1,442)	(1,309)
Decrease (increase) in employee future benefits	(44)	1,439
Decrease (increase) in DFAA program	(140,806)	152,261
Cash used in operating activities	880,606	986,616
Capital investing activities		
Acquisition of tangible capital assets	1,301	1,509
Proceeds from disposal of tangible capital assets	(8)	0
Cash used in capital investing activities	1,293	1,509
Net cash provided by Government of Canada	881,899	988,125

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

For the year ended March 31, 2018

1. Authority and objectives

The Department of Public Safety and Emergency Preparedness (PSEP) was created in 2003 to ensure coordination across all federal departments and agencies responsible for national security and the safety of Canadians. PSEP operates under the *Department of Public Safety and Emergency Preparedness Act* (2005, c.10) that received Royal assent on March 23, 2005.

PSEP contributes to the public safety of Canadians through the promotion and maintenance of a just, peaceful and safe society, it has five main core programs:

- National Security: Develops and coordinates policy to define and advance Canada's national security objectives;
- Border Strategies: Provides federal policy leadership and coordination on a variety of border issues to ensure that security objectives are achieved in a manner that facilitates the flow of legitimate trade and travel, and contributes to the effective management of the Canada-US border agenda;
- Countering Crime: Collaborates with regions and communities to build crime prevention programs that are specific and appropriate to them. It provides communities with tools, knowledge and support to implement prevention programs;
- Emergency Management: Addresses all-hazards through the development of an integrated emergency management system, legislation and national strategies, training and standards to protect Canada and Canadians; and
- Internal Services: Supports the work of all other programs and provides key corporate 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:

For the year ended March 31, 2018

2. Summary of significant accounting policies (continued)

(a) Parliamentary authorities

PSEP is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to PSEP 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 *2017-2018 Departmental Plan*. 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 *2017-2018 Departmental Plan*.

(b) Net cash provided by government

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

(c) Amounts due from 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 PSEP is entitled to draw from the CRF without further authorities to discharge its liabilities.

(d) Revenues

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

2. Summary of significant accounting policies (continued)

(e) Expenses

Transfer payments are recorded as an expense in the year the transfer is authorized and all eligibility criteria have been met by the recipient. 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, legal services and workers' compensation are recorded as operating expenses at their carrying value.

(f) Employee future benefits

(i) *Pension benefits:* Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government. PSEP's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. PSEP's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(ii) *Severance benefits:* The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits 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 initially recorded at cost and where necessary, are discounted to reflect their concessionary terms. When necessary, an allowance for valuation is recorded to reduce the carrying value of accounts receivable to amounts that approximate their net recoverable value.

(h) Non-financial assets

The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and, except for land, are amortized to expense over the estimated useful lives of the assets, as described in Note 8. All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. Tangible capital assets do not include immovable assets located on reserves as defined in the Indian Act, works of art, museum collection and Crown land to which no acquisition cost is attributable; and intangible assets. Inventories are valued at cost and are comprised of spare parts and supplies held for future program delivery and are not primarily intended for resale. Inventories that no longer have service potential are valued at the lower of cost or net realizable value.

2. Summary of significant accounting policies (continued)

(i) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, a provision is accrued and an expense recorded to other expenses. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in note 10 of the financial statements.

(j) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the Government's best estimate of the related amount at the end of the reporting period. The most significant items 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.

(k) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i. Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- ii. Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.

Public Safety and Emergency Preparedness

Notes to the Financial Statements (Unaudited)

For the year ended March 31, 2018

3. Parliamentary authorities

PSEP 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, PSEP 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:

	2018	2017
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	1,068,977	1,052,799
<i>Adjustments for items affecting net cost of operations but not affecting authorities:</i>		
Amortization of tangible capital assets	(2,474)	(2,677)
Services provided without charge by other government departments	(21,700)	(21,642)
Decrease (increase) in vacation pay and compensatory leave	(1,442)	(1,309)
Decrease (increase) in employee future benefits	(44)	1,439
Refund of prior years' expenditures	1,903	6,903
Decrease (increase) in accruals for DFAA	(140,806)	152,261
Bad debt	0	(164)
Adjustments to previous years' payables at year-end	52,374	7,221
	(112,189)	142,032
<i>Adjustments for items not affecting net cost of operations but affecting authorities:</i>		
Acquisitions of tangible capital assets	1,301	1,509
Salary overpayments charged to the Appropriation	885	1,086
Salary advances to employees charged to Appropriation	106	186
Proceeds from disposal of tangible capital assets	(8)	0
	2,284	2,781
Current year authorities used	959,072	1,197,612

Public Safety and Emergency Preparedness

Notes to the Financial Statements (Unaudited)

For the year ended March 31, 2018

3. Parliamentary authorities (continued)

(b) Authorities provided and used:

	2018	2017
	(in thousands of dollars)	
Authorities provided:		
Vote 1 - Operating expenditures	145,516	158,260
Vote 5 - Grants & Contributions	946,845	1,035,949
Salary and motor car allowance	85	84
Contributions to employee benefits plan	14,545	14,337
	1,106,991	1,208,630
Less:		
Lapsed: Operating and transfer payments	(147,919)	(11,018)
Current year authorities used	959,072	1,197,612

4. Accounts payable and accrued liabilities

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

	2018	2017
	(in thousands of dollars)	
Accounts payable - Other government departments and agencies	3,392	2,740
Accounts payable - External parties	480,614	458,907
Total accounts payable	484,006	461,647
Accrued liabilities	10,871	9,614
Total accounts payable and accrued liabilities	494,877	471,261

5. Employee future benefits

(a) Pension benefits

PSEP'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 PSEP 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.

For the year ended March 31, 2018

5. Employee future benefits (continued)

The 2017-2018 expense amounts to \$9,905,010 (\$9,988,723 in 2016-2017). For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016-2017) the employee contributions and, for Group 2 members, approximately 1.00 times (1.08 times in 2016-2017) the employee contributions.

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

(b) Severance benefits

Severance benefits provided to the PSEP's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2018, all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

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

	2018	2017
	(in thousands of dollars)	
Accrued benefit obligation - Beginning of year	4,890	6,329
Expense for the year	223	(895)
Benefits paid during the year	(179)	(544)
Accrued benefit obligation - End of year	4,934	4,890

For the year ended March 31, 2018

6. Disaster Financial Assistance Arrangements (DFAA)

In the event of a natural disaster in Canada, the federal government provides financial assistance to provincial and territorial governments through the Disaster Financial Assistance Arrangements program to help meet the basic costs of response and recovery when such expenditures exceed what an individual province or territory could reasonably be expected to bear on its own. The current outstanding liabilities of \$1,965,543,847 is the estimated cost to PSEP of 73 natural disaster events for which the Federal Government has agreed to share the costs and final payments have not yet been made.

	2018	2017
	(in thousands of dollars)	
Opening balance	1,824,738	1,976,999
Disbursements	(581,513)	(712,717)
Accrued expenses for the year	722,319	560,456
Closing balance	1,965,544	1,824,738

7. Accounts receivable and advances

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

	2018	2017
	(in thousands of dollars)	
Receivables – Other government departments and agencies	3,622	2,933
Receivables – External parties	2,228	1,306
Employee advances	290	190
Subtotal	6,140	4,429
Allowance for doubtful accounts on receivables from external parties	(80)	(80)
Total accounts receivable and advances	6,060	4,349

For the year ended March 31, 2018

8. Tangible capital assets

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

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. PSEP 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.

Asset Class	Amortization Period
Computer hardware	4 to 7 years
Computer software	3 to 5 years
Other equipment including furniture	5 years
Machinery and Equipment	5 years
Motor Vehicles	3 years
Leasehold improvements	Over the useful life of the improvement or the lease term, whichever is shorter
Assets under construction	once in service, in accordance with asset type

Assets under construction are recorded in the applicable asset class in the year they are put into service and are not amortized until they are put into service.

Public Safety and Emergency Preparedness

Notes to the Financial Statements (Unaudited)

For the year ended March 31, 2018

(in thousands of dollars)

8. Tangible capital assets (continued)

Capital asset class	Cost					Accumulated amortization					Net book value	
	Opening balance	Acquisitions	Adjustments	Disposals and write-offs	Closing balance	Opening balance	Amortization	Adjustments	Disposals and write-offs	Closing balance	2018	2017
Computer hardware	7,115	760	0	(2,835)	5,040	5,260	503	0	(2,835)	2,928	2,112	1,855
Machinery and equipment	16	0	0	(16)	0	14	2	0	(16)	0	0	2
Computer software	1,561	26	0	(163)	1,424	687	270	0	(163)	794	630	874
Other equipment including furniture	1,405	0	0	(63)	1,342	1,392	13	0	(63)	1,342	0	13
Vehicles	125	82	0	(30)	177	105	8	0	(22)	91	86	20
Leasehold improvements	26,419	0	0	(1,525)	24,894	16,187	1,678	0	(1,525)	16,340	8,554	10,232
Assets under construction	672	433	0	0	1,105	0	0	0	0	0	1,105	672
Total	37,313	1,301	0	(4,632)	33,982	23,645	2,474	0	(4,624)	21,495	12,487	13,668

Public Safety and Emergency Preparedness

Notes to the Financial Statements (Unaudited)

For the year ended March 31, 2018

9. Contractual obligations

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

Contractual obligations	Fiscal Year					Total
	2019	2020	2021	2022	2023	
Transfer payments	(in thousands of dollars)					
	160,372	61,800	52,137	29,053	18,401	321,763

10. Contingent liabilities

Claims and litigation

Claims have been made against PSEP in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$47,110 (\$47,110 in 2016-2017) at March 31, 2018.

11. Related party transactions

PSEP is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual. PSEP enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, PSEP has agreements with Correctional Services Canada and with Royal Canadian Mounted Police related to the provision of human resources and finance system services. During the year, PSEP 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, PSEP received services without charge from certain common service organizations related to accommodation, legal services, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services provided without charge have been recorded in PSEP's Statement of Operations and Departmental Net Financial Position as follows:

Public Safety and Emergency Preparedness

Notes to the Financial Statements (Unaudited)

For the year ended March 31, 2018

11. Related party transactions (continued)

	2018	2017
	(in thousands of dollars)	
Accommodation	11,058	11,123
Employer's contribution to the health and dental insurance plans	9,483	8,994
Legal services	1,149	1,516
Workers' compensation	10	9
Total	21,700	21,642

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 services organization so that one department performs services for all other departments and agencies without charge. The costs of these services, such as payroll and cheque issuance services provided by Public Services and Procurement Canada and audit services provided by the Office of the Auditor General are not included in PSEP's Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties

	2018	2017
	(in thousands of dollars)	
Accounts receivable – Other government departments and agencies	3,622	2,933
Accounts payable – Other government departments and agencies	3,392	2,740
Expenses – Other government departments and agencies	9,706	10,290
Revenues – Other government departments and agencies	2,045	2,063

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

12. Transfer payments

The following table presents details of transfer payments as follows:

	2018	2017
	(in thousands of dollars)	
Payments to territorial governments for operating expenditures	0	53,153
Payments to other levels of government	714,210	579,275
Payments to Native peoples	90,909	94,671
Payments to non-profit organizations	87,026	138,091
Other transfer to other countries and international organizations	185	412
Total	892,330	865,602

Public Safety and Emergency Preparedness

Notes to the Financial Statements (Unaudited)

For the year ended March 31, 2018

13. Segmented information

Presentation by segment is based on PSEP'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 revenue generated for the main programs, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

Expenses	(in thousands of dollars)					2018	2017
	National Security	Emergency Management	Countering Crime	Border Strategies	Internal Services	Total	Total
Transfer payments	153	738,966	145,979	7,232	0	892,330	865,602
Operating expenses							
Salaries and employee benefits	22,926	29,802	26,482	3,593	45,578	128,381	119,521
Claims against the Crown	0	0	1,596	0	0	1,596	21,287
Professional and special services	1,711	4,326	2,690	198	8,336	17,261	19,577
Accommodation	2,048	2,633	2,303	312	7,029	14,325	14,338
Information	960	473	2,943	0	1,111	5,487	3,104
Travel and relocation	495	1,044	829	167	476	3,011	3,399
Amortization	739	709	0	28	998	2,474	2,677
Equipment	255	72	33	32	2,019	2,411	1,830
Equipment rentals	704	144	53	20	1,101	2,022	1,810
Repairs	78	44	0	0	889	1,011	654
Utilities, material and supplies	65	121	57	11	221	475	618
Communication	3	37	1	1	193	235	274
Bad debt expenses	0	0	0	0	0	0	164
Miscellaneous	1	1	0	0	1	3	7
Total operating expenses	29,985	39,406	36,987	4,362	67,952	178,692	189,260
Total expenses	30,138	778,372	182,966	11,594	67,952	1,071,022	1,054,862
Revenues							
Interdepartmental provision of internal support services					2,045	2,045	2,063
Miscellaneous revenues					59	59	47
Revenues earned on behalf of government					(59)	(59)	(47)
Total revenues					2,045	2,045	2,063
Net cost of operations before government funding and transfers	30,138	778,372	182,966	11,594	65,907	1,068,977	1,052,799

14. Subsequent event

Pursuant to Orders-in-Council P.C. 2018-661, 2018-861 and 2018-862 dated May 31 and June 21, 2018, the Government of Canada under the Management Emergency Act has agreed to share the costs of three (3) additional natural disaster events for a total of \$147,240,323. The impact of these costs will be reflected in the 2018-2019 financial statements.

1. Introduction

This document provides summary information on the measures taken by Public Safety and Emergency Preparedness (PSEP) to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management and assessment results and related action plans.

Detailed information on the Department's authority, mandate and program activities can be found in the [2016-17 Departmental Performance Report](#) and the [2017-2018 Departmental Plan](#).

2. Departmental system of internal control over financial reporting

2.1 Internal Control Management

PSEP has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. The Departmental Financial Management Control Framework is in place and includes:

- 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 for control management;
- Values and ethics which is further supported by a specific departmental code of conduct;
- On-going communication and training on statutory requirements, policies and procedures for sound financial management and control; and
- Quarterly monitoring and regular updates on internal control management plus assessment results and action plans to the Deputy Minister, departmental senior management and the Departmental Audit Committee (DAC).

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

2.2 Service Arrangements Relevant to Financial Statements

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

Common Arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers the payments of salaries and the procurement of goods and services, as per PSEP's Delegation of Authority, and provides accommodations services.
- Treasury Board Secretariat provides PSEP with information used to calculate various accruals and allowances, such as accrued severance pay;
- Employment and Social Development Canada provides Worker's Compensation coverage;
- The Department of Justice provides legal services to PSEP;
- Shared Services Canada provides information technology infrastructure services to PSEP in the areas of e-mail, data centre and network services.

Specific Arrangements:

- PSEP's systems of record are provided by the Royal Canadian Mounted Police, who hosts the Department's financial management system, and by Correctional Services of Canada, who hosts the Department's human resources information management system. Memorandums of Understanding are in place between PSEP and these agencies, identifying respective roles and responsibilities. RCMP attests to PSEP over the effective functioning and management of the RCMP SAP Information Technology General Controls; and
- PSEP provides corporate services to three Public Safety Portfolio Agencies, including: the Office of the Correctional Investigator, the Royal Canadian Mounted Police External Review Committee and the Civilian Review and Complaints Commission for the Royal Canadian Mounted Police. Memoranda of Understanding are in place between PSEP and each of these agencies, identifying respective roles and responsibilities.

3. Departmental assessment results during fiscal year 2017-18

PSEP assesses its internal control processes on an on-going rotational basis. The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls: In the current year, there were no significantly amended key controls in existing processes which required a reassessment. However, in response to the risks posed by the Phoenix pay system, Public Safety continues to maintain additional controls and monitoring to mitigate risks of errors or misstatements.

These additional controls include:

a) Daily Data Quality Report and Audit

A daily review of all staffing actions entered in the Human Resource Management System is performed to identify data errors that could trigger a pay issue for immediate correction or identification to the Pay Centre.

b) Pay Issues Monitoring

Pay issues are reported to the PS Compensation Liaison team for issue analysis.

c) Salary Overpayment Identification and Monitoring

The salary overpayment identification and monitoring tool detects potential unidentified overpayments yet to be acknowledged by the Pay Centre. Problematic transactions are analyzed for immediate correction or identification to the Pay Centre.

d) Stop Salary Payment Controls

The salary overpayment identification and monitoring tool provides a listing of employees having departed the Public Service to stop pay from being released if they continue to be paid beyond their end dates.

e) Payment Verification Controls

Payment officers review pay transactions to search for duplicate payments and abnormal or large amounts before releasing pay in the Phoenix Pay System.

f) Emergency Salary Advance and Priority Payments Monitoring Controls

All Emergency Salary Advances (ESA) and Priority Payments (PP) are recorded and a detailed report is maintained to ensure that all payments issued are recovered from employee's future pay.

Ongoing monitoring program: As part of its rotational ongoing monitoring plan, the department completed its reassessment of the financial controls within the business processes of Procure to Payment (P2P), Entity Level Controls, Capital Assets and Payroll. For the most part, the key controls that were tested performed as intended and were shown to be effective. Some areas for improvement were identified as follows:

- Supporting documentation should be consistently retained and accessible to support the consistent performance of controls related to travel expenditures.
- Look for opportunities, if technically feasible, of including pertinent financial information or linkage to the SAP asset database in the current departmental asset tracking systems or exploring opportunities to have these two systems unified for the tracking of all assets.
- Ensure that a formal approach exists for the reporting of the status of departmental capital assets. Assets which are no longer in use can be written off or removed from the asset account balances in a timely manner.

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4. Departmental action plan

4.1 Progress during fiscal year 2017-18

PSEP continued to conduct its ongoing monitoring according to the previous fiscal year's rotational plan as shown in the following table.

Progress During Fiscal Year 2017-18	
Ongoing monitoring assessment for current year	Status
Procure to Payment	Assessment completed as planned. Controls are adequately designed and operating effectively. Improvements recommended to strengthen the overall retention of supporting documentation have been completed.
Entity Level Controls	Assessment completed as planned. Controls are adequately designed and are in line with the The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework principles.
Capital Assets	Assessment completed as planned. Recommendations for improvements to asset tracking and capital asset status management were identified. Remedial actions are currently underway.
Payroll Process	Assessment completed as planned. Controls and processes have been re-aligned and implemented in accordance with the new Pay Control Framework and Guideline on Financial Management of Pay Administration. Government-wide recommended control improvements to departmental payroll processes are currently underway.

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4.2 Action plan for the next fiscal year and subsequent years

PSEP's rotational ongoing monitoring plan over the next three years is shown in the following table.

Rotational Ongoing Monitoring Plan

Key control areas	Fiscal Year 2018-19	Fiscal year 2019-20	Fiscal year 2020-21
Entity-level controls	No	No	Yes
IT general controls under departmental management	No	Yes	No
Grants and contributions & Disaster Financial Assistance Arrangements	Yes	Yes	No
Operating expenditures	Yes	No	Yes
Capital expenditures	No	No	Yes
Financial close	Yes	No	No
Payroll	Yes	Yes	Yes
Revenue	No	Yes	No