Office of the Conflict of Interest and Ethics Commissioner

Commissariat aux conflits d'intérêts et à l'éthique

FINANCIAL STATEMENTS

MARCH 31, 2014

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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, 2014 and all information contained in these statements rests with the management of the Office of the Conflict of Interest and Ethics Commissioner (the Office). These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

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

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

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

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going 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, 2014 has been undertaken in accordance with the Treasury Board *Policy on Internal Controls* and the action plans are summarized in the annex.

At the request of management, Ernst & Young LLP has audited these financial statements and has expressed an audit opinion on the fair presentation of the financial statements of the Office, which does not include an audit opinion on the annual assessment of the effectiveness of the Office's internal control over financial reporting.

Mary Dawson
Conflict of Interest and Ethics Commissioner
Ottawa, Canada
August 6, 2014

Denise Benoit
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Conflict of Interest and Ethics Commissioner

We have audited the accompanying financial statements of the **Office of the Conflict of Interest and Ethics Commissioner**, which comprise the statement of financial position as at March 31, 2014, the statement of operations and net financial position, the statement of changes in net debt and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Office of the Conflict of Interest and Ethics Commissioner** as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada,
August 6, 2014.

Statement of Financial Position

As at March 31
(in dollars)

	2014	2013
Liabilities		
Accounts payable and accrued liabilities (note 4)	**220,662**	226,180
Vacation pay and compensatory leave	**187,252**	186,364
Employee future benefits (note 5(b))	**94,907**	323,344
Total net liabilities	**502,821**	735,888
Financial assets		
Due from Consolidated Revenue Fund	**91,735**	151,880
Accounts receivable and advances (note 6)	**128,927**	74,300
Total net financial assets	**220,662**	226,180
The Office's net debt	**282,159**	509,708
Non-financial assets		
Tangible capital assets (note 7)	**345,631**	531,360
Total non-financial assets	**345,631**	531,360
The Office's net financial position	**(63,472)**	**(21,652)**

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

Mary Dawson
Conflict of Interest and Ethics Commissioner
Ottawa, Canada
August 6, 2014

Dénise Benoit
Chief Financial Officer

Statement of Operations and the Office's Net Financial Position

For the Year Ended March 31
(in dollars)

	2014	2013
Expenses		
Administration of Act and Code	**4,617,008**	4,672,723
Internal Services	**2,423,691**	2,285,050
Total expenses	**7,040,699**	6,957,773
Revenues		
Administration of Act and Code	**2,050**	1,900
Revenues earned on behalf of the Government	**(2,050)**	(1,900)
Total revenues	**-**	-
Net cost of operations before government funding	**7,040,699**	6,957,773
Government funding		
Net cash provided by Government of Canada	**6,082,488**	6,448,517
Change in due from Consolidated Revenue Fund	**(60,145)**	(5,737)
Services provided without charge by other government departments (note 8(a))	**1,060,176**	1,035,140
Total government funding	**7,082,519**	7,477,920
Net cost of operations after government funding	**(41,820)**	(520,147)
The Office's net financial position - Beginning of year	**(21,652)**	498,495
The Office's net financial position - End of year	**(63,472)**	**(21,652)**

Segmented information (note 9)

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

Statement of Change in the Office's Net Debt

For the Year Ended March 31
(in dollars)

	2014	2013
Net cost of operations after government funding	**(41,820)**	(520,147)
Change due to tangible capital assets		
Acquisition of tangible capital assets	**33,094**	90,083
Amortization of tangible capital assets	**(218,823)**	(205,095)
Total change due to tangible capital assets	**(185,729)**	(115,012)
Total changes	**(185,729)**	(115,012)
Net decrease in the Office's net debt	**(227,549)**	(635,159)
The Office's net debt - Beginning of year	**509,708**	1,144,867
The Office's net debt - End of year	**282,159**	**509,708**

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

Statement of Cash Flow

For the Year Ended March 31

(in dollars)

	2014	2013
Operating activities		
Net cost of operations before government funding	**7,040,699**	6,957,773
Non-cash items:		
Amortization of tangible capital assets	**(218,823)**	(205,095)
Services provided without charge by other government departments (note 8(a))	**(1,060,176)**	(1,035,140)
	5,761,700	5,717,538
Variations in Statement of Financial Position:		
Increase in accounts receivable and advances	**54,627**	1,797
Decrease in accounts payable and accrued liabilities	**5,518**	3,940
Decrease (increase) in vacation pay and compensatory leave	**(888)**	37,531
Decrease in employee future benefits	**228,437**	597,628
Cash used in operating activities	**6,049,394**	6,358,434
Capital investing activities		
Acquisition of tangible capital assets	**33,094**	90,083
Cash used in capital investing activities	**33,094**	90,083
Net cash provided by Government of Canada	**6,082,488**	**6,448,517**

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

Notes to the Financial Statements

For the Year Ended March 31

1. Authority and Objectives

These statements provide the financial information related to all the operations controlled by the Office of the Conflict of Interest and Ethics Commissioner (the Office).

The Office began its operations on July 9, 2007, with the coming into force of the *Conflict of Interest Act*. It replaced the Office of the Ethics Commissioner and was given an expanded mandate.

The objective of the Office is to enhance public confidence and trust in the government and parliamentary institutions, and to assure Canadians that public officials, whether appointed or elected, are held to standards that place the public interest above their private interests. The role of the Office is to administer the *Conflict of Interest Act* (The Act) and the *Conflict of Interest Code for Members of the House of Commons* (The Code). The Commissioner provides confidential advice to public office holders (POHs) and Members of Parliament on how to comply with the Act and the Code respectively. She is also mandated to provide confidential advice to the Prime Minister on conflict of interest and ethics issues. The Commissioner conducts examinations or inquiries into alleged contraventions of the Act or Code. The Office receives and maintains on file confidential reports of assets, liabilities and activities and maintains public registries for publicly declarable information.

The Office's business is defined through two activities:

Administration of the *Conflict of Interest Act* and the *Conflict of Interest Code for Members of the House of Commons*: This encompasses all the activities of the Office, as described above.

Internal Services: This activity supports the business of the Office through internal management services and resources.

Notes to the Financial Statements

For the Year Ended March 31

2. Summary of Significant Accounting Policies

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

Significant accounting policies are as follows:

(a) Parliamentary Authorities – The Office is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Office do not parallel financial reporting according to Canadian generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Office's 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.

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

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

(d) Revenues – Revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenues takes place.

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

(e) Expenses – Expenses are recorded on the accrual basis:

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

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

Notes to the Financial Statements

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

(f) Employee future benefits

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

ii. Severance benefits: Employees entitled to severance benefits under conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

iii. Sick leave: Employees are permitted to accumulate unused sick leave which they can only use in the event of an illness. Accumulated unused sick leave upon employee termination is not payable to the employee and no related amount has been accrued in these financial statements.

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

(h) Foreign currency transactions – Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at year end.

(i) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of $2,500 or more are recorded at their acquisition cost.

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

Asset Class	Amortization Period
Machinery and equipment	10 years
Other equipment	10 years
Computer equipment	3 years
Computer software	3 years
Leasehold improvements	remaining life of lease

Notes to the Financial Statements

For the Year Ended March 31

2. Summary of Significant Accounting Policies (continued)

(j) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the liability for employee severance 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

For the Year Ended March 31

3. Parliamentary Authorities

The Office receives most of its funding through annual Parliamentary authorities. Items recognized in the Statement of Operations and the Office's 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, the Office 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

	2014	2013
	(in dollars)	
Net cost of operations before government funding	**7,040,699**	6,957,773
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	**(218,823)**	(205,095)
Services provided without charge by other government departments	**(1,060,176)**	(1,035,140)
Decrease (increase) in vacation pay and compensatory leave	**(888)**	37,531
Decrease (increase) in employee future benefits	**228,437**	597,628
Refund of prior years' expenditures	**12,708**	10,669
Total items affecting net cost of operations but not affecting authorities	**(1,038,742)**	(594,407)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	**33,094**	90,083
Total items not affecting net cost of operations but affecting authorities	**33,094**	90,083
Current year authorities used	**6,035,051**	**6,453,449**

Notes to the Financial Statements

For the Year Ended March 31

3. Parliamentary Authorities (continued)

(b) Authorities provided and used

	2014	2013
	(in dollars)	
Authorities provided:		
Vote 15 – Operating expenditures	**6,234,980**	6,338,000
Statutory amounts	**699,140**	755,249
Less:		
Lapsed: Operating	**(899,069)**	(639,800)
Current year authorities used	**6,035,051**	**6,453,449**

Notes to the Financial Statements

For the Year Ended March 31

4. Accounts Payable and Accrued Liabilities

The following table present details of the Office's accounts payable and accrued liabilities:

	2014	2013
	(in dollars)	
Accounts payable – Other government departments and agencies	**11,526**	50,689
Accounts payable – External parties	**28,528**	22,143
Total accounts payable	**40,054**	72,832
Accrued liabilities	**180,608**	153,348
Total accounts payable and accrued liabilities	**220,662**	**226,180**

Notes to the Financial Statements

For the Year Ended March 31

5. Employee Future Benefits

(a) Pension benefits:

The Office'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 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 the Office 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 201*2, employee contributors have been divided into two groups - Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2013-2014 expense amounts to $491,566 ($539,248 in 2012-2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 times in 2012-2013) the employee contributions and, for Group 2 members, approximately 1.5 times (1.6 times in 2012-2013) the employee contributions.

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

(b) Severance benefits:

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

	2014	**2013**
	(in dollars)	
Accrued benefit obligation – Beginning of year	**323,344**	920,972
Expense for the year	**(190,036)**	(276,138)
Benefits paid during the year	**(38,401)**	(321,490)
Accrued benefit obligation – End of year	**94,907**	**323,344**

As a result of changes to conditions of employment for all employees of the Office, the accumulation of severance benefits under the employee severance pay program ceased commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Notes to the Financial Statements

For the Year Ended March 31

6. Accounts Receivable and Advances

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

	2014	2013
	(in dollars)	
Receivables – Other government departments and agencies	**127,842**	64,873
Receivables – External	**585**	8,927
Employee advances	**500**	500
Net accounts receivable and advances	**128,927**	**74,300**

Notes to the Financial Statements

For the Year Ended March 31

7. Tangible Capital Assets

(in dollars)

Capital Asset Class	Cost: Opening balance	Cost: Acquisitions	Cost: Closing Balance	Accumulated amortization: Opening Balance	Accumulated amortization: Amortization	Accumulated amortization: Closing Balance	Net book value: 2014	Net book value: 2013
Machinery and equipment	13,501	-	13,501	9,641	1,350	10,991	**2,510**	3,860
Other equipment	587,800	-	587,800	373,717	57,713	431,430	**156,370**	214,083
Computer equipment	194,893	13,842	208,735	113,448	46,314	159,762	**48,973**	81,445
Computer software	340,699	19,252	359,951	108,727	113,446	222,173	**137,778**	231,972
Leasehold improvements	120,523	-	120,523	120,523	-	120,523	**-**	-
Total	**1,257,416**	**33,094**	**1,290,510**	**726,056**	**218,823**	**944,879**	**345,631**	**531,360**

Amortization expense for the year ended March 31, 2014 is $218,823 (2013 - $205,095).

Notes to the Financial Statements

For the Year Ended March 31

8. Related Party Transactions

The Office is related, as a result of common ownership, to all Government departments, agencies, and Crown corporations. The Office enters into transactions with these entities in the normal course of business and on normal trade terms. In addition, the Office has agreements with the House of Commons related to the provision of information technology and security services, the Library of Parliament related to the provision of financial management services and Public Works and Government Services Canada related to the provision of compensation services. During the year, the Office received common services that were provided without charge from other Government departments as presented in part (a) below.

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

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

	2014	**2013**
	(in dollars)	
Accommodation	**728,985**	706,058
Employer's contribution to health and dental insurance plan	**331,191**	329,082
Total	**1,060,176**	**1,035,140**

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

Notes to the Financial Statements
For the Year Ended March 31

8. Related Party Transactions (continued)

(b) Other transactions with related parties

	2014	2013
	(in dollars)	
Accounts receivable – Other government departments and agencies	**127,842**	64,873
Accounts payable – Other government departments and agencies	**11,526**	50,689
Expenses – Other government departments and agencies	**1,589,204**	1,666,264

Expenses disclosed in note 8(b) exclude common services provided without charge, which are already disclosed in (a).

Notes to the Financial Statements

For the Year Ended March 31

9. Segmented Information

Presentation by segment is based on the Office's program activity structure. 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 object of expense and by major type of revenue. The segment results for the period are as follows:

	2014			2013
	(in dollars)			
	Administration of Act and Code	**Internal Services**	**Total**	**Total**
Expenses				
Salaries and employee benefits	3,675,181	1,408,591	**5,083,772**	5,032,540
Professional and special services	128,290	707,161	**835,451**	854,238
Accommodation	526,995	201,989	**728,984**	706,057
Amortization of tangible capital assets	158,191	60,632	**218,823**	205,095
Rentals	32,178	22,967	**55,145**	53,365
Materials and supplies	39,353	-	**39,353**	39,005
Communications, travel and relocation	35,683	2,154	**37,837**	41,168
Repairs and maintenance	3,322	20,181	**23,503**	19,811
Information	17,815	16	**17,831**	6,494
Total expenses	**4,617,008**	**2,423,691**	**7,040,699**	6,957,773
Revenues				
Administrative penalties	2,050	-	**2,050**	1,900
Revenues earned on behalf of Government	(2,050)	-	**(2,050)**	(1,900)
Total revenues	**-**	**-**	**-**	-
Net cost from continuing operations	**4,617,008**	**2,423,691**	**7,040,699**	**6,957,773**

Annex to the *Statement of Management Responsibility Including Internal Control Over Financial Reporting*

Summary of the assessment of effectiveness of the systems of internal control over financial reporting and action plan of the Office of the Conflict of Interest and Ethics Commissioner for fiscal year 2013-2014

Preface

The management of the Office of the Conflict of Interest and Ethics Commissioner (Office) is responsible for maintaining an effective system of internal control over financial reporting (ICFR).

Management has decided to conduct an annual assessment of its system of ICFR, establish an action plan to address any necessary adjustments, and attach to the *Statement of Management Responsibility* a summary of the assessment results and action plan.

An effective system of ICFR aims 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 followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risks 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 key risks, assess effectiveness and adjust, as required, associated key controls, as well as to monitor system performance in support of continuous improvement.

1. Introduction

This document is attached to the Office's *Statement of Management Responsibility Including Internal Control Over Financial Reporting* for the fiscal year 2013-2014**.** This document provides summary information on the measures taken by the Office to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by the Office as at March 31, 2014, including progress, results and related action plans along with financial highlights pertinent to understanding the control environment unique to the Office. This is the third year of publication for this annex.

1.1 Authority, Mandate and Program Activities

Detailed information on the Office's authority, mandate and program activities can be found in the Commissioner's *Annual Report in respect of the Conflict of Interest Act* and the Commissioner's *Annual Report in respect of the Conflict of Interest Code for Members of the House of Commons.*

Financial highlights

Below is key financial information for fiscal year 2013-2014. More information can be found in the Office's audited Financial Statements and Notes to the Financial Statements.

- Total expenses were $7,040,699, 72% of which is salary.
- Total revenues of $2,050 (Administrative monetary penalties) were earned on behalf of the Government.
- Total financial and non-financial assets and liabilities were $566,293 and $502,821 respectively. Tangible capital assets comprise 61% of the Office's total assets. Accounts payable and accrued liabilities comprise 44% of total liabilities.
- The Office has a number of information systems that are critical to its operations and financial reporting.

1.2 Audited financial statements

Financial statements of the Office are audited since 2010-2011. The Office has always received an unqualified audit opinion, including for fiscal year 2013-2014.

1.3 Service arrangements relevant to financial statements

The Office relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

- PWGSC centrally administers the pay services, the payments of salaries and the management of accommodation services.
- Treasury Board Secretariat provides the Office with information used to calculate various accruals and allowances, such as the accrued severance liability.
- Under a Memorandum of Understanding, the House of Commons provides system development and maintenance support service for information systems used in financial reporting and also delivers security monitoring services.
- Under a Memorandum of Understanding, the Library of Parliament (the Library) provides the Office with financial services, including transaction processing and preparation of financial statements.

1.4 Accounting changes in fiscal-year 2012-2013

No changes were made to the Government of Canada Chart of Accounts object code classification and therefore, there was no need to reclassify comparative figures to the current year's presentation.

2. Office's control environment relevant to ICFR

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

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

2.1 Key positions, roles and responsibilities

Below are the Office's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Commissioner – The Conflict of Interest and Ethics 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 Senior Management Committee.

Chief Financial Officer (CFO) – The Office's 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 its annual assessment.

Directors – The Office's directors in charge of program delivery are responsible for maintaining and reviewing the effectiveness of the system of ICFR falling within their mandate.

Senior Management Committee (SMC) - As the Office's central decision-making body, the SMC reviews, approves and monitors the Corporate Risks Profile and the Office's system of internal control, including the assessment and action plan relating to the system of ICFR.

2.2 Key measures taken by the Office

The Office's control environment also includes a series of measures to equip its employees to manage risks through raising awareness and providing appropriate knowledge and tools, as well as developing skills. Key measures include:

- The establishment of a Code of values and standards of conduct. Employees must familiarize themselves with the content of the Code and sign the Employee Acknowledgement Form when they are first appointed to the Office, and then on an annual basis during their performance review.

- An update to the MOU with the Library of Parliament to document the role of the Library with respect to ICFR;
- Annual performance agreements which clearly set out financial management responsibilities for all executives;
- Information sessions in core areas of financial management;
- Policies and guidelines tailored to the Office's control environment;
- Valid delegation of financial signing authorities instrument; and
- Documentation of the Office's main business processes and related key risks and control points to support the management and oversight of its system of ICFR.

3. Assessment of Office's system of ICFR

3.1 Assessment baseline

Financial Statements of the Office for the fiscal year 2013-2014 have been audited by Ernst & Young. In parallel, senior management has been providing increased focus on formalizing its approach to the management and on-going maintenance of its systems of ICFR with the objective of supporting continuous improvement.

In 2011-2012, the Office implemented a more systematic risk-based multi-year assessment plan of the design and operating effectiveness of its systems of ICFR.

Whether it is to support the control-based audit requirements or those of the *Policy on Internal Control*, an effective system of ICFR has the objective to provide reasonable assurance that:

- transactions are appropriately authorized;
- data and financial information are accurate and consistent;
- financial records are properly maintained;
- assets are safeguarded; and
- applicable laws, regulations and policies are followed.

Over time, this includes the assessment of the design and operating effectiveness of the system of ICFR, and by doing so, ensuring the on-going monitoring and continuous improvement of the Office's system of ICFR.

Design effectiveness means ensuring that key control points are identified, documented and implemented, 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 required is actioned. This includes the mapping of key processes and IT systems to the main accounts by location as applicable.

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

The assessment covers all Office control levels, including corporate or entity, general computer and business process controls.

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

3.2 Assessment method at the Office

The self-assessment at the Office is a systematic review conducted to provide assurance on internal control over financial reporting.

In 2011-2012, a scoping and planning exercise was undertaken to identify key business processes and sub-processes. During this exercise, both quantitative and qualitative factors were considered. Materiality levels for financial statement accounts and for significant business units or processes were established. Other risk areas, such as susceptibility of loss due to errors or fraud, nature of account, etc. that could have an impact on the internal controls over financial reporting were also identified. Financial statement assertions and control categories were documented.

In 2012-2013, the Office assessed the design effectiveness of the key controls in the areas of:

- Compensation;
- Goods and Services;
- Planning, Budgeting and Forecasting;
- Financial Statements and Public Accounts; and
- Financial System Security Accesses.

In 2013-2014, the Office assessed the design effectiveness of the Administrative Monetary Penalty Process. Furthermore, the assessment of the operating effectiveness of the key controls was completed in the areas of:

- Compensation;
- Goods and Services;
- Administrative Monetary Penalties;
- Planning, Budgeting and Forecasting;
- Financial Statements and Public Accounts; and
- Financial System Security Accesses.

4. Assessment results as of March 31, 2014

During 2013-2014, the Office completed the following activities for compensation, goods and services, administrative monetary penalties, planning, budgeting and forecasting, financial statements and public accounts, and financial system security accesses.

- Completed the test of design and the test of operating effectiveness through process walkthroughs and testing of sample transactions per process/sub-process;

- Identified any necessary remediation plans to address any gaps or issues of design and operating effectiveness;

- Reported the results of the alignment of the key internal controls with the process level risks and the identification of remediation plans.

On this basis, the Office has documented its approach and results in order to articulate its multi-year action plan and related implementation requirements.

There were no material deficiencies noted that would cause a significant weakness in internal controls over financial reporting.

The results from the operating effectiveness testing identified remediation requirements that have been addressed or are being addressed through remediation plans, in the following areas:

- Financial system access controls need to be strengthened – new functional classes have been created to reflect proper user access and segregation of duties.

- Salaries – evidence of proper managerial pre-authorization is not always present. Therefore, the review of the salary payment process has been recommended to enhance compliance to expenditure initiation for increments, retroactive and severance pays.

- Goods and Services – evidence of account verification of expenses are not always present. Therefore, proof of sign off (email, initials and/or signature) by the delegated authorities and improved verification audit trails are recommended.

- Assets – evidence of approval by the delegated authorities and verification of the physical asset inventory are not always present. Therefore, it is recommended that the delegated authorities sign off on the annual physical asset inventory document and that improved verification audit trails be put in place. Furthermore, in order to simplify the internal control review process, it is recommended that a query by vendor be made available in the inventory program.

Looking ahead, the Office will continue to ensure that controls are effective over time, taking into account the initial assessment as well as results from annual assessments and audit. This will involve developing and implementing a well-integrated monitoring program to raise awareness and understanding of the Office's system of ICFR at all levels of the organization, equipping employees with the knowledge, skills and tools needed to maintain a robust ICFR, and continuing to assess the status of ICFR on an ongoing basis.

5. Office's action plan

Building on progress to date, the Office has developed a multi-year plan to fully implement the assessment of its ICFR and is positioned to complete the main assessment of its system of ICFR in 2014-2015, with complete implementation of an ongoing monitoring process in 2015-2016. The action plan below highlights the progress towards ensuring an effective system of internal control over financial reporting is in place.

	Completed	2014-2015	2015-2016
Scoping and Planning	✓		
Process Controls	**Completed**	**2014-2015**	**2015-2016**
Documentation and identification of controls			
Compensation	✓		
Goods and services	✓		
Administrative monetary penalties	✓		
Planning, budgeting and forecasting	✓		
Preparation of financial statements	✓		
Preparation of Public Accounts	✓		
Financial systems access security	✓		
Test of Design			
Compensation	✓		
Goods and services	✓		
Administrative monetary penalties			
Planning, budgeting and forecasting	✓		
Preparation of financial statements	✓		
Preparation of Public Accounts	✓		
Financial systems access security	✓		
Test of Operating effectiveness			
Compensation	✓		
Goods and services	✓		
Administrative monetary penalties	✓		
Planning, budgeting and forecasting	✓		
Preparation of financial statements	✓		
Preparation of Public Accounts	✓		
Financial systems access security	✓		
IT General Controls	**Completed**	**2014-2015**	**2015-2016**
Documentation and identification of controls		✓	
Test of design		✓	
Test of operating effectiveness		✓	

Entity Level Controls	Completed	2014-2015	2015-2016
Documentation and identification of controls		✓	
Test of design		✓	
Test of operating effectiveness		✓	

Monitoring	Completed	2014-2015	2015-2016
On-going monitoring			✓

The Office is fully committed to this action plan. However, attainment of the milestones identified above is contingent on the Library being able to maintain its current level of resources to implement the assessment activities related to the ICFR. Any major changes to the Office structure could impact on the associated timelines. The Office will update its action plan on an annual basis.