



DEPARTMENT OF JUSTICE CANADA MINISTÈRE DE LA JUSTICE CANADA

Audited Departmental Financial Statements and Reporting on Internal Control

Presentation to FMI

Ottawa

November 25, 2009

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Chief Financial Officer





Agenda

- Department of Justice
 - Financial context: 2008-09
 - Where we have been – A four-year journey to “get ready”
 - What did “getting ready” entail? Our challenges...
 - Then finally....the Audit of the 2008-09 F/S
 - What worked well? Some key messages
 - What next?
 - Transition to the *Policy on Internal Control* in 2009-10
 - *Statement of Management Responsibility Including Internal Control Over Financial Reporting*
 - The Annex
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Department of Justice

- Responsible for the legal affairs of the Government of Canada
 - Provides legal services to individual departments and agencies
 - This work reflects the duties of our Minister's dual role as:
 - Attorney General of Canada and
 - Minister of Justice
 - The Department conducts its 2 priorities along 3 program activities:
 1. A fair, relevant and accessible justice system that reflects Canadian values
 - a) Justice policies, laws and programs
 - b) Office of the Federal Ombudsman for Victims of Crime
 2. A federal government that is supported by effective and responsive legal services
 - c) Services to government
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Financial context: 2008-09

- Vote 1 Operating = \$ 299.8M spent; Vote 5 Grants & Contributions = \$ 374.4M spent

- Statement of Operations:

| | |
|----------------------------------|-----------|
| • Revenues | \$ 242.3M |
| • Salaries and Employee Benefits | \$ 520.3M |
| • O&M | \$ 124.1M |
| • Amortization of Capital Assets | \$ 10.6M |
| • Other Expenses | \$ 11.5M |
| • Total Operating Expenses | \$ 666.5M |
| • Grants and Contributions | \$ 341.7M |

- Statement of Financial Position:

| | |
|---------------------------------|-----------|
| • Financial Assets | \$ 417.7M |
| • Capital Assets | \$ 36.8M |
| • Accounts Payable | \$ 76.5M |
| • Transfer Payments Payable | \$ 350.7M |
| • Unused Vacation and Severance | \$ 112.6M |
| • Family Law Account | \$ 6.6M |

- FTEs = 4,420
 - 6 Regional Offices plus National Capital Region (Headquarters)
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Where we have been – A four-year journey to “get ready”

- Announcement by the President of the Treasury Board for audited departmental financial statements (March 2004)
 - Request for Proposals for readiness assessment (October 2005 to January 2006)
 - Department of Justice conducts audit readiness (February 2006 to Spring 2008)
 - Readiness Assessment Report issued by KPMG June 2006 (10 priority areas)
 - KPMG clean audit opinion provided on closing balance departmental Assets and Liabilities as at March 31, 2007
 - Specified procedures on select financial controls with respect to revenues and expenditures conducted by KPMG for April to November 2007 period.
 - Official letter from DM to Comptroller General, stating Justice is ready (July 2008)
 - Pilot Audit by the OAG on the 2007-08 financial statements (May 2008 to April 2009)
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What did “getting ready” entail? Our challenges...

- Capital asset threshold too high at \$10K for some assets
 - Need for revised capital asset accounting policy and procedures, and retroactive restatement of financial statements
 - Documentation of financial control framework
 - flowcharts with narrative on significant business processes and key internal controls, based on materiality and risk
 - all regions, including NCR
 - Report by KPMG in June 2007 on general and application controls for those systems that provide significant financial information in support of the financial statements (6 systems)
 - Adjustments to super functional user and programmer accesses in IFMS
 - Preparation of the Audit and Financial Statement Binders, and supporting analyses of general ledger (FRA) accounts
 - Building departmental audit capacity, including development of a team and collaborative approach with the various branches and regional offices
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What did “getting ready” entail? Our challenges...

cont'd

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- Implementation of net vote authority for provision of legal services on April 1, 2007
 - Dealing with organizational change due to split of Public Prosecution Service from Justice effective April 1, 2007
 - KPMG report on allocation of assets and liabilities between Justice and the PPSC as at April 1, 2007
 - Testing our key internal controls in 2007-08 for O&M and G&C (period tested April to November 2007, with positive results)
 - Review by OAG of KPMG working papers on closing balance audit
 - Taking lessons learned during pilot audit, which included IT controls in its scope
 - Addressing pilot audit management letter from OAG
 - RPS and IFMS user accesses
 - signing authorities
 - supporting documentation
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Then finally...the Audit of the 2008-09 F/S

- Materiality set at \$ 5M (1/2 % of expenses)
 - Timelines in 2009:
 - IT Audit (February and March)
 - Engagement Letter and Audit Planning (May)
 - Audit Execution (June and July)
 - Legal Letter (July)
 - Financial Statements Sign-Off (August)
 - Audit Opinion and Report to Senior Management (August)
 - DPR Review (September)
 - Sheila Fraser presentation to Governing Council (October)
 - Over 8 weeks (mid-June to mid-August):
 - 5 dedicated OAG staff on-site plus Principal
 - Justice staff vacation plans put on hold
 - Financial Statements conform to Canadian GAAP = Due from CRF; Accruing liability for unratified collective agreements
 - Unqualified OAG audit opinion on 2008-09 financial statements
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What worked well? Some key messages

- Support of senior management and engagement of middle managers achieved from the start (and throughout)
 - “Go / No Go” approach
 - Orientation, debriefings, and regular status reports to:
 - Senior Management Board; Finance Committee; Business Managers and Regional Finance Directors
 - Maintained working relationship and communications with OCG and OAG
 - Dedicated, committed and knowledgeable team within Finance
 - Know your accounting theory (CICA, PSAB, TBAS)
 - In-depth knowledge of your
 - Business and Operations; Numbers; Contacts; Processes
 - This takes time (4 years actual vs 2 years planned)
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What next?

- Continue to build CFO Branch capacity
- Address OAG 2008-09 Management Letter areas of improvement
- Interim controls testing to be conducted by OAG for 2009-10 financial statements in January 2010
- Prepare for the assessment of internal controls as required under the TB *Policy on Internal Control* commencing 2009-10

Transition to the *Policy on Internal Control* in 2009-10

- The *Policy on Internal Control* seeks to ensure that risks relating to the stewardship of public resources are adequately managed through effective internal controls, **including internal controls over financial reporting**.
- **System of Internal Control over Financial Reporting** is the set of internal controls that allow management and users of financial statements to have reasonable assurance that:
 - Financial transactions are fairly reflected, recorded in accordance with policies and made within delegated authorities, and
 - Financial resources are safeguarded against material loss.
- This is achieved through the new *Statement of Management Responsibility Including Internal Control Over Financial Reporting* which, as part of the financial statements, acknowledges:
 1. The responsibility of management for internal controls over financial reporting,
 2. Conduct of an annual risk-based assessment of the effectiveness of the departmental system of internal control over financial reporting, and
 3. The establishment of an action plan to address any necessary adjustments resulting from the assessment.





Statement of Management Responsibility Including Internal Control Over Financial Reporting

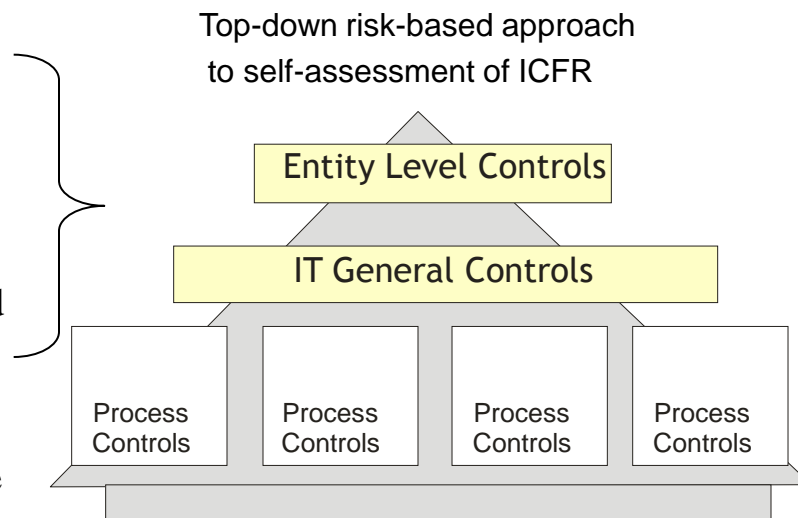
- An Annex supports the *Statement of Management Responsibility Including Internal Control Over Financial Reporting*
 - The readiness work accomplished so far in preparation for the controls-based audit of the Justice's financial statements will provide the building blocks for completing the Annex to the *Statement of Management Responsibility Including ICFR*
 - This work will be reflected in the main sections of the Annex, as provided in the draft *TB Guideline on Internal Control over Financial Reporting*:
 1. Introduction
 2. Control environment of Department of Justice relative to ICFR
 3. Assessment of Justice's system of ICFR
 4. Assessment results
 5. Action plan
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The Annex

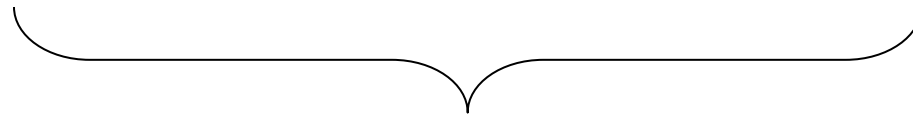
- 1. Introduction:** high level information related to the authority, mandate and program activities of Justice (links to RPP and DPR)
- 2. Control Environment:**
 - key positions, roles and responsibilities (governance) relating to ICFR
 - measures taken by Justice as whole to equip its staff and to manage risks well through raising awareness, providing appropriate knowledge and tools as well as developing skills
- 3. Assessment of ICFR:**
 - start with pervasive high-level organization wide (entity level) controls and work down to evaluating specific financial processes and controls (performed via readiness assessment)
 - continue with monitoring of control effectiveness





The Annex, cont'd

4. **Assessment results:** significant findings of the assessments of the effectiveness of the system of internal control over financial reporting
5. **Action plan:** actions taken to date or proposed by management, including timelines, to deal with any further significant adjustments related to ICFR



These will include:
self-assessment results,
internal audit findings,
horizontal audit (OCG) recommendations, and
OAG management letter points.



Thank you

Any questions?

