Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2012, and all information contained in these statements rests with the management of the Department. These consolidated 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 consolidated financial statements. Some of the information in the consolidated 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 Department's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the Department's *Departmental Performance Report*, is consistent with these consolidated financial statements.

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

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department and through conducting an annual 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, 2012 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 the Department's system of internal control is reviewed by the Office of the Chief Audit Executive, which conducts audits of various areas of the Department's operations, as well as audit work specific to annual financial reporting. Management is also supported by a Departmental Audit Committee (DAC). The fundamental role of the DAC is to provide objective advice and recommendations to the Deputy Ministers on the adequacy of the Department's risk management, control and governance processes. The DAC reviews core areas of departmental management, control and accountability, including the Department's Consolidated Financial Statements and all significant accounting estimates and judgements therein with management and advises the Deputy Ministers on any apparent material concerns. Additionally, the Chief Audit Executive has full and unrestricted access to, and meets regularly with, the DAC.

The Consolidated Financial Statements of the Department have not been audited.

Louis Lévesque
Deputy Minister of International Trade

Morris Rosenberg
Deputy Minister of Foreign Affairs

Nadir Patel
Chief Financial Officer and Assistant Deputy Minister

Ottawa, Canada
August 31, 2012

Consolidated Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)	**2012**	2011
Liabilities		
Accounts payable and accrued liabilities (Note 4)	**330,438**	306,443
Vacation pay and compensatory leave	**40,288**	43,684
Deferred revenue	**130**	439
Employee future benefits (Note 5)	**162,655**	178,536
Total liabilities	**533,511**	529,102
Financial assets		
Due from the Consolidated Revenue Fund	**240,598**	215,140
Accounts receivable and advances (Note 6)	**102,724**	95,987
Inventory held for re-sale (Note 7)	**5,351**	7,130
Total financial assets	**348,673**	318,257
Departmental net debt (Note 14)	**184,838**	210,845
Non-financial assets		
Prepaid expenses	**14,183**	31,801
Consumable inventory (Note 7)	**3,040**	6,087
Tangible capital assets (Note 8)	**1,233,510**	1,213,584
Total non-financial assets	**1,250,733**	1,251,472
Departmental net financial position	**1,065,895**	1,040,627

Contractual obligations (Note 9)
Contingent liabilities (Note 10)

The accompanying notes form an integral part of the Consolidated Financial Statements.

Louis Lévesque
Deputy Minister of International Trade

Morris Rosenberg
Deputy Minister of Foreign Affairs

Nadir Patel
Chief Financial Officer and Assistant Deputy Minister

Ottawa, Canada
August 31, 2012

Consolidated Statement of Operations and Departmental Net Financial Position (Unaudited)

For the year ended March 31	*Restated Planned Results*		Restated (Notes 12 /14)
(in thousands of dollars)	*2012*	**2012**	2011
Expenses			
Diplomacy and Advocacy	*1,234,222*	**1,083,378**	1,215,542
Governance, Strategic Direction and Common Service Delivery	*728,288*	**666,786**	781,817
Passport Canada	*323,562*	**331,469**	284,546
Government of Canada Benefits	*147,340*	**210,610**	149,663
Internal Services	*157,539*	**193,435**	165,328
International Commerce	*170,508*	**173,735**	165,325
International Policy Advice and Integration	*139,744*	**101,484**	135,894
Consular Services and Emergency Management	*63,067*	**72,528**	61,583
Total Expenses	*2,964,270*	**2,833,425**	2,959,698
Revenues			
Sale of goods and services	*449,728*	**461,912**	426,543
Gain on disposal of tangible capital assets (net)	-	**44,003**	475
Foreign exchange net gain	-	**3,772**	-
Other non-tax revenue	*3,609*	**1,158**	776
Interest on non-tax revenue	-	**256**	833
Revenues earned on behalf of Government (Note 14)	-	**(184,862)**	(137,595)
Total Revenues	*453,337*	**326,239**	291,032
Net cost from continuing operations	***2,510,933***	**2,507,186**	2,668,666

Further details on the figures above can be found in Note 13, Segmented Information.

Transferred operations (Note 12)			
Expenses	*87,391*	**41,804**	87,391
Revenue	-	-	-
Net cost of transferred operations	*87,391*	**41,804**	87,391
Net cost of operations before government funding and transfers	***2,598,324***	**2,548,990**	2,756,057
Government funding and transfers (Note 14)			
Net cash provided by Government		**2,475,899**	2,675,694
Change in due from Consolidated Revenue Fund		**25,458**	14,332
Services provided without charge by other government departments (Note 11)		**79,709**	97,332
Transfer of assets and liabilities from (to) other government departments (Note 12)		**(6,808)**	(44)
Net cost of operations after government funding and transfers		**(25,268)**	(31,257)
Departmental net financial position - Beginning of year		**1,040,627**	1,009,370
Departmental net financial position - End of year		**1,065,895**	1,040,627

The basis of presentation for the Consolidated Statement of Operations and Departmental Net Financial Position can be found in Note 1.

The planned results and the 2011 figures have been restated to exclude transferred operations (Note 12) and the implementation of the revised *Treasury Board Accounting Standard 1.2—Departmental and Agency Financial Statements* (Note 14).

The accompanying notes form an integral part of the Consolidated Financial Statements.

Statement of Change in Departmental Net Debt (Unaudited)

For the year ended March 31

(in thousands of dollars)	**2012**	2011
Net cost of operations after government funding and transfers	**(25,268)**	(31,257)
Change due to tangible capital assets		
Acquisition of tangible capital assets	**132,478**	150,289
Amortization of tangible capital assets	**(91,511)**	(91,845)
Proceeds from disposal of tangible capital assets	**(56,138)**	(14,055)
Gain on disposal of tangible capital assets - net	**44,003**	475
Transfers to other government departments	**(8,906)**	(44)
Total change due to tangible capital assets	**19,926**	44,820
Change due to prepaid expenses	**(17,618)**	(10,369)
Change due to consumable inventory	**(3,047)**	1,077
Net increase (decrease) in departmental net debt	**(26,007)**	4,271
Departmental net debt - Beginning of year	**210,845**	206,574
Departmental net debt - End of year	**184,838**	**210,845**

This Statement replaces the Statement of Equity as a result of the implementation of the revised *Treasury Board Accounting Standard 1.2 – Departmental and Agency Financial Statements* (Note 14).

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flow (Unaudited)

For the year ended March 31

(in thousands of dollars)	2012	Restated (Note 12) 2011
Operating activities		
Net cost of operations before government funding and transfers	**2,548,990**	2,756,057
Non-cash items:		
Amortization of tangible capital assets (Note 8)	**(91,511)**	(91,845)
Services provided without charge by other government departments (Note 11)	**(79,709)**	(97,332)
Gain on disposal of tangible capital assets - net	**44,003**	475
Variations in Statement of Financial Position:		
Increase in accounts receivable and advances	**6,737**	20,394
Increase (decrease) in inventory held for re-sale	**(1,779)**	1,951
Decrease in prepaid expenses	**(17,618)**	(10,369)
Increase (decrease) in consumable inventory	**(3,047)**	1,077
Increase in accounts payable and accrued liabilities	**(23,995)**	(34,325)
Decrease in vacation pay and compensatory leave	**3,396**	1,954
Decrease (increase) in deferred revenue	**309**	(243)
Decrease (increase) in accrued employee future benefits	**15,881**	(8,378)
Transfer of liabilities to other government departments (Note 12)	**(2,098)**	-
Cash used in operating activities	**2,399,559**	2,539,416
Capital investing activities		
Acquisitions of tangible capital assets (Note 8)	**132,478**	150,289
Proceeds from disposal of tangible capital assets	**(56,138)**	(14,055)
Transfers between government departments	-	44
Cash used in capital investing activities	**76,340**	136,278
Net cash provided by Government of Canada	**2,475,899**	2,675,694

Further details of this statement can be found in Note 3, Parliamentary Authorities.

The accompanying notes form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

1. Authority and objectives

The Department of Foreign Affairs and International Trade (hereinafter called "the Department") operates under the legislation set out in the *Department of Foreign Affairs and International Trade Act* , RSC 1985, c. E-22.

The 2011-2012 *Report on Plans and Priorities* (RPP) was based on the Department's Program Activity Architecture (PAA), as approved by Treasury Board (TB). Financial information in the 2011-2012 *Departmental Performance Report* (DPR) is reported on this basis. The PAA presents the Department's three strategic outcomes. Strategic outcomes are supported by a cascading matrix of program activities, sub-activities and sub-sub-activities, each of which has associated expected results and performance indicators.

Strategic Outcome #1: Canada's International Agenda - The international agenda is shaped to Canada's benefit and advantage in accordance with Canadian interests and values.

- *Program Activity #1* : International Policy Advice and Integration - The Department draws upon its expertise at missions and Headquarters to establish integrated and coherent foreign policy and international trade priorities, and to provide information, intelligence and advice to ministers, senior officials and key partners to support informed decisions that advance Canadian values and interests internationally.
- *Program Activity #2* : Diplomacy and Advocacy - Diplomacy, advocacy and program delivery, informed by consultations with domestic stakeholders, are key activities the Department undertakes to engage and influence international players in order to advance Canadian interests and values internationally.

Strategic Outcome #2: International Services for Canadians - Canadians are satisfied with commercial, consular and passport services.

- *Program Activity #3* : International Commerce - Delivers commercial services and advice to Canadian business and supports their pursuit of international business opportunities.
- *Program Activity #4* : Consular Services and Emergency Management - Manages and delivers consular services and advice to Canadians and provides a coordinated Government of Canada response to emergencies abroad affecting Canadians.
- *Program Activity #5* : Passport Canada - Manages and delivers passport services through the Passport Canada Revolving Fund. It enables the issuance of secure travel documents to Canadians, which facilitates their travel and contributes to international and domestic security.

Strategic Outcome #3: Canada's International Platform - The Department maintains a mission network of infrastructure and services to enable the Government of Canada to achieve its international priorities.

- *Program Activity #6* : Governance, Strategic Direction and Common Service Delivery - Governs, provides strategic direction and leadership, manages change, delivers services and provides infrastructure to the mission platform.
- *Program Activity #7* : Government of Canada Benefits - The vehicle through which the Department and central agencies manage statutory payments to Government of Canada employees abroad (Canada-based staff and locally engaged staff).

Internal Services were the combination of process- and service-related activities that made possible all of the Department's operations. Overall, Internal Services enabled the Department to carry out its mandated functions and deliver on its strategic outcomes.

Note 13 Segmented Information presents the expenses incurred and revenues generated from continuing operations, by strategic outcome and program activity, as well as by major object of expenses and by major type of revenues.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

2. Summary of significant accounting policies

These consolidated 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.

During 2011, amendments were made to *Treasury Board Accounting Standard 1.2—Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012. These changes have been applied retroactively, and comparative information for 2010-11 has been restated. Net debt (calculated as liabilities less financial assets) is now presented in the Consolidated Statement of Financial Position. Accompanying this change, the Department now presents a Statement of Change in Departmental Net Debt and no longer presents a Statement of Equity. Revenue is now presented net of non-respendable amounts in the Consolidated Statement of Operations and Departmental Net Financial Position. More information on these changes can be found in Note 14 Accounting Changes.

Significant accounting policies are as follows:

(a) Parliamentary authorities

The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department 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 consolidated Statement of Operations and Departmental Net Financial Position and in the consolidated 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 consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the 2011-12 *Report on Plans and Priorities* .

(b) Consolidation

These consolidated financial statements include the accounts of the Passport Canada Revolving Fund for which deputy head (DH) is accountable. All inter-organizational balances and transactions have been eliminated.

Export Development Canada (EDC), a federal Crown corporation named in Part I of Schedule III to the *Financial Administration Act,* is accountable for its affairs to Parliament through the Minister of International Trade. The Minister of International Trade, via a trust in the name of Her Majesty, is the sole shareholder of EDC. As the Department does not own the shares of EDC, this investment is not included within the Department's consolidated Financial Statements. In accordance with Government Accounting Policies, transactions between EDC and the Government of Canada are not recorded in the Department's consolidated financial statements.

The Department also makes payments on behalf of the Government of Canada to three Crown Corporations: the Canadian Commercial Corporation (CCC), the National Capital Commission (NCC), and the International Development and Research Centre (IDRC). As per the Treasury Board Accounting Standards (TBAS), these payments are not recorded in the Department's financial statements as the Department's deputy head is not accountable for the Crown corporations and as these funds do not relate to the Department's activities. The Department is simply acting as a flow-through mechanism for administration purposes so that the Crown corporation may receive its Parliamentary authorities.

(c) Net cash provided by Government

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

(d) 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 the Department is entitled to draw from the CRF without further authorities to discharge its liabilities.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

2. Summary of significant accounting policies (continued)

(e) Revenues

- i Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- ii Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- iii Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- iv Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- v Revenues that are non-respendable are not available to discharge the Department's liabilities. While the Deputy Head 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 in reduction of the entity's gross revenues.

(f) Expenses

Expenses are recorded on the accrual basis:

- i Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- ii Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- iii 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 estimated cost.

(g) Employee future benefits

- i **Pension benefits:** Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The Department'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. Eligible locally engaged staff (LES), who are employees hired at Missions abroad, participate in a combination of plans developed and administered based on local laws and practice, or in a worldwide pension scheme, which is administered by the Department. As the Government of Canada is the sponsor of LES pension plans, the funds for the contributions have been provided to the Department (Vote 17).
- ii **Severance benefits:** Employees (both Canada based staff (CBS) and locally-engaged staff (LES)) who are entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by CBS employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole. The LES obligation is established on the basis of operational requirements of the specific Mission, local laws or practice, and is calculated based on the number of eligible employees multiplied by the estimated value of the severance payment based on historical experience.

(h) Cash in transit :

Cash for the Department consists of the funds in transit from missions and funds received and not yet deposited, partially offset by credits in imprest accounts. This cash is for the facilitation of operations. All foreign currency accounts are valued at the rate of exchange in effect on March 31.

(i) Accounts receivable

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

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

2. Summary of significant accounting policies (continued)

(j) Contingent liabilities

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

(k) Prepaid expenses

Prepaid expenses for the Department consist primarily of rent payments. Prepaid expenses are to be accounted for as non-financial assets until the related services are rendered, goods are consumed, or terms of the contractual agreement are fulfilled.

(l) Inventories

Inventories consist of parts, materiels and supplies held for future program delivery and not intended for resale, as well as inventory for sale. Inventories of materiels and supplies are valued at the lower of cost (using the average cost) or net realizable value.

(m) 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. Gains and losses resulting from foreign currency transactions are included in either Expenses or Revenues in the Consolidated Statement of Operations and Departmental Net Financial Position (and in Note 13), depending on if the net result is a loss or gain, respectively. The Department has negotiated an agreement with the Treasury Board Secretariat (TBS) and the Department of Finance whereby the Department is held harmless to foreign exchange gains and losses on Vote 1 Operating Expenditures abroad.

(n) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost per unit of $10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value.

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

Asset Categories	Amortization Period
Buildings	20 to 25 years
Works and infrastructure	30 years
Machinery and equipment	5 to 25 years
Informatics hardware	3 to 15 years
Informatics software	3 to 10 years
Vehicles	5 to 10 years
Leasehold improvements	Term of the lease or 25 years

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

(o) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee future benefits, allowance for doubtful accounts 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 Consolidated Financial Statements (Unaudited)

As at March 31, 2012

3. Parliamentary Authorities

The Department receives most of its funding through annual parliamentary authorities. Note 3 provides three separate reconciliations of the current year authorities used. Section 3 b) displays how much of the authorities provided were actually used, section 3 c) shows of those Authorities used, how much required the use of cash, while 3 a) shows the reconciliation between Authorities used (cash-basis) to net cost of operations (accrual-basis, from the Statement of Operations). Items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and the consolidated Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

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

(in thousands of dollars)	**2012**	Restated (Note 12) 2011
Net cost of operations before government funding and transfers	**2,548,990**	2,756,057
Adjustments for items affecting net cost of operations but not affecting authorities:		
Services provided without charge by other government departments	**(79,709)**	(97,332)
Amortization of tangible capital assets	**(91,511)**	(91,845)
Refund of prior years' expenditures	**20,759**	14,210
Termination benefits - Workforce Adjustment costs	**(37,600)**	-
Gain on disposal of tangible capital assets - net	**44,003**	475
Gain on sale of Real property	**(52,729)**	(12,439)
Bad debt expense	**(330)**	(1,102)
Decrease in vacation pay and compensatory leave	**3,239**	1,954
Decrease (increase) in accrued employee future benefits	**15,881**	(8,378)
Other	**230**	(160)
	2,371,223	2,561,440
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	**132,478**	150,289
Spending of proceeds from the disposal of surplus assets	**1,209**	749
Decrease in prepaid expenses	**(17,618)**	(10,369)
Increase (decrease) in inventory held for re-sale	**(1,779)**	1,951
Increase (decrease) in consumable inventory	**(3,047)**	1,077
Current year authorities used	**2,482,466**	2,705,137

Authorities are provided on cash basis while the net cost of operations is reported on an accrual accounting basis. As a result, the two will always be different. The difference is mainly explained by accruals and revenue not available for spending as they do not affect authorities, but are included in the net cost of operations. The variance is also explained by various elements classified as Assets in the Consolidated Statement of Financial Position (i.e. inventory, prepaid expenses and capital assets) that affect authorities used, but are not included in the net cost of operations.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

3. Parliamentary Authorities (continued)

(b) Authorities provided and used

(in thousands of dollars)	2012	2011
Authorities provided:		
Vote 1 - Operating Expenditures	**1,455,482**	1,692,749
Vote 5 - Capital Expenditures	**227,740**	234,346
Vote 10 - Grants and Contributions	**899,459**	963,886
Vote 17 - Payments, in respect of pension, insurance and social security programs or other arrangements for LES	**70,140**	-
Statutory - Passport Canada	**158,349**	133,000
Other Statutory	**95,675**	98,413
	2,906,845	3,122,394
Less:		
Authorities available for future years	**138,982**	32,141
Lapsed authorities: Operating	**97,031**	149,452
Lapsed authorities: Capital	**60,458**	43,704
Lapsed authorities: Grants and Contributions	**117,609**	106,960
Lapsed authorities: Payments, in respect of pension, insurance and social security programs or other arrangements for LES	**10,299**	-
Lapsed authorities: Passport Canada Capital expenditures	**-**	85,000
	424,379	417,257
Current year authorities used	**2,482,466**	2,705,137

Parliamentary authorities provided (i.e. authorities available from prior years for Passport Canada, proceeds from the disposal of surplus Crown assets, and funds provided through the Main Estimates and Supplementary Estimates in the current year) are reconciled to Parliamentary authorities used in the current year and agree with amounts shown as "Available for Use and Authorities Used" as reflected in the "Summary of Source and Disposition of Authorities" in Volume II of the Public Accounts. The difference between Authorities provided, Vote 5 - Capital expenditures, less lapsed authorities, Capital, and the acquisitions of tangible capital assets is due to capital authorities used on expenditures that were not capitalized, in accordance with the Department's capital asset policy.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

3. Parliamentary Authorities (continued)

(c) Reconciliation of net cash provided by Government to current year authorities used

(in thousands of dollars)	2012	Restated (Note 14) 2011
Net cash provided by Government	**2,475,899**	2,675,694
Refund of prior years' expenditures	**20,759**	14,210
Proceeds from disposal of tangible capital assets	**56,138**	14,055
Gain on sale of Real Property	**(52,729)**	(12,439)
Increase in accounts receivable and advances	**(6,737)**	(20,394)
Increase in accounts payable and accrued liabilities	**23,995**	34,325
Liabilities transferred to other government departments	**2,098**	-
Accrued termination benefits included in the accounts payable and accrued liabilities	**(37,600)**	-
Increase (decrease) in deferred revenue	**(309)**	243
Other adjustments	**952**	(438)
Current year authorities used	**2,482,466**	2,705,256

The Net Cash Provided by Government is reconciled to the Current Year Authorities Used by including: refund of prior years' expenditures, proceeds and related gains on capital assets, and the changes that have occurred within the Statement of Financial Position. Only items within the Statement of Financial Position for which the amounts affect either Net Cash Provided by Government or Current Year Authorities Used are included. The accrued liabilities, such as contingent liabilities and employees severance benefits, are not included as they do not affect net cash nor authorities.

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)	**2012**	2011
Accounts payable to external parties	**199,305**	176,830
Accounts payable to other government departments and agencies	**32,299**	42,428
	231,604	219,258
Accrued liabilities	**98,834**	87,185
	330,438	306,443

In Canada’s Economic Action Plan 2012 (Budget 2012), the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, the Department has recorded at March 31, 2012, an obligation for termination benefits for an amount of $37,600,000 as part of accrued liabilities to reflect the estimated workforce adjustment costs.

5. Employee future benefits

(a) Pension benefits

The Department's Canada based staff (CBS) 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 Plans benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The 2011-12 expense amounts to $81,889,950 ($81,498,595 in 2010-11), which represents approximately 1.8 times (1.9 times in 2010-11) the contributions by employees.

The Department'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.

For locally-engaged staff (LES), the Government of Canada participates in local social security programs where possible. Where Canada does not participate in a local social security system providing pension benefits, or Canada participates in the local system and in addition, employer-sponsored supplemental pension plans are typically provided in the country, the Government of Canada provides supplemental pension benefits through a combination of local separate pension plans developed and administered based on local law and practice, or through the Pension Scheme for Employees of the Government of Canada, Locally Engaged which is administered by the Department. Local separate pension plans are pre-funded and are provided on defined benefit or defined contribution basis. The Pension Scheme is a defined benefit plan provided on a pay-as-you go basis. Starting in 2011-12, the Department became responsible for the expenses related to LES social security and pension (via Vote 17) (contributions to social security and separate pension plans and benefits from the Pension Scheme). The 2011-12 employer contributions amount to $47,870,000 ($41,626,000 in 2010-11, which was paid by Treasury Board). The Department’s responsibility with regard to the Plan is limited to its contributions. The Government of Canada, the Plan's sponsor, is responsible for surpluses or deficiencies.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

5. Employee future benefits (continued)

(b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. The severance benefit liability for Canada Based Staff is based on a percentage provided by Treasury Board, applied to the eligible payroll as at March 31. Treasury Board determines the percentages based on an actuarial evaluation of the future liability for the government's eligible employees. As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees during the fiscal year. Employees subject to these changes were 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.

For locally-engaged staff, the liability is based on historical data whereby an average severance payment per locally-engaged staff is calculated. This cost is multiplied by the total number of eligible locally engaged staff and a layoff/payout rate. 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:

(in thousands of dollars)	**2012**	2011
Accrued benefit obligation, beginning of year	**178,536**	170,158
Transferred to other government department (Note 12)	(1,941)	119
	176,595	170,277
Expense for the year	40,456	22,427
Benefits paid during the year	(54,396)	(14,168)
Accrued benefit obligation, end of year	**162,655**	178,536

CBS severance benefit liability amounts to $71 million, whereas the LES liability is $92 million.

(c) Locally-engaged staff insurance benefits

Starting in 2011-12, the Department became responsible for the expenses (premiums to local insured plans and benefits from local self-insured plans) related to locally-engaged staff insurance benefits, which include medical, dental, disability and life insurance (via Vote 17). The 2011-12 expense amounts to $11,971,000 ($12,135,000 in 2010-11, which was paid by Treasury Board).

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

6. Accounts receivable and advances

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

(in thousands of dollars)	**2012**	2011
Advances to Missions abroad	**40,574**	38,931
Employee advances		
Posting advances	**22,095**	21,804
Other	**771**	778
	22,866	22,582
Receivables from other government departments and agencies	**18,182**	18,361
Receivables from external parties	**21,330**	16,598
Cash in transit	**7,459**	7,017
Other advances	**6,586**	6,586
	116,997	110,075
Allowance for doubtful accounts on external receivables and advances	**(14,273)**	(14,088)
Net accounts receivable	**102,724**	95,987

7. Inventory

The following table presents details of Passport Canada's inventory measured at the average cost method:

(in thousands of dollars)	**2012**	2011
Passport materials	**3,040**	6,050
Other	**-**	37
Consumable inventory	**3,040**	6,087
Passport material held for re-sale	**5,351**	7,130
	8,391	13,217

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations is $24,160,360 ($21,991,544 in 2010-11).

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

8. Tangible capital assets

Cost (in thousands of dollars)	**Opening Balance**	**Acquisitions**	**Adjustments** [1]	**Disposals, Write-offs & Transfers**	**Closing Balance**
Land	232,754	-	-	(1,270)	**231,484**
Buildings	1,235,011	6,831	535	(4,378)	**1,237,999**
Works and infrastructure	1,452	-	-	-	**1,452**
Machinery and equipment	51,114	**3,139**	(2,231)	(1,914)	**50,108**
Informatic hardware	81,328	2,217	(38,734)	(24,844)	**19,967**
Informatic software	51,050	31	5,781	(607)	**56,255**
Vehicles	46,519	5,483	1,176	(3,427)	**49,751**
Leasehold improvements	221,312	2,278	6,722	(1,319)	**228,993**
Assets under construction	257,130	112,499	(23,405)	(6,346)	**339,878**
	2,177,670	132,478	(50,156)	(44,105)	**2,215,887**

Accumulated amortization (in thousands of dollars)	**Opening Balance**	**Amortization**	**Adjustments** [1]	**Disposals, Write-offs & Transfers**	**Closing Balance**
Buildings	686,442	52,758	-	(2,641)	**736,559**
Works and infrastructure	181	49	-	-	**230**
Machinery and equipment	40,053	2,570	(2,565)	(3,421)	**36,637**
Informatic hardware	70,880	3,148	(33,814)	(22,740)	**17,474**
Informatic software	23,871	12,551	(2,490)	488	**34,420**
Vehicles	25,615	5,243	(63)	(3,069)	**27,726**
Leasehold improvements	117,044	15,192	(2,318)	(587)	**129,331**
	964,086	91,511	(41,250)	(31,970)	**982,377**

Net book value (in thousands of dollars)	2011	**2012**
Land	232,754	**231,484**
Buildings	548,569	**501,440**
Works and infrastructure	1,271	**1,222**
Machinery and equipment	11,061	**13,471**
Informatic hardware	10,448	**2,493**
Informatic software	27,179	**21,835**
Vehicles	20,904	**22,025**
Leasehold improvements	104,268	**99,662**
Assets under construction	257,130	**339,878**
	1,213,584	**1,233,510**

(1)Adjustments include assets under construction of $23,405 that were transferred to other asset categories upon completion of the assets.

Effective November 15, 2011, the Department transferred Informatic hardware and software at their net book value of $8,917,399 to Shared Services Canada. This transfer is included in the adjustment column (refer to note 12 for further details on the transfer).

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

9. Contractual obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payment programs or when the services/goods are received. There are a significant number of small dollar value leases for residential and office building rentals abroad. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2013	2014	2015	2016	2017 and thereafter	**Total**
Chancery lease in Moscow	4,300	4,400	4,600	4,700	158,800	**176,800**
Purchase of passport materials	49,000	45,399	40,106	38,006	-	**172,511**
Leases of office space for Passport Canada	34,008	13,226	8,365	7,414	11,961	**74,974**
Chancery lease in Madrid	1,900	2,000	2,100	2,200	21,200	**29,400**
Chancery lease in Hong Kong	7,500	8,500	9,000	-	-	**25,000**
Chancery lease in Dublin	550	550	550	550	13,600	**15,800**
Consulate general lease consul in New York	1,500	3,100	3,100	3,100	4620	**15,420**
Chancery lease in Sao Paulo	2,700	3,000	3,200	3,500	2,600	**15,000**
Chancery lease Permanent Mission of Canada to the United Nations in New York	1,600	1,600	1,700	1,700	4,400	**11,000**
Chancery lease in Shanghai	2,160	2,160	2,160	2,160	1,080	**9,720**
	105,218	**83,935**	**74,881**	**63,330**	**218,261**	**545,625**

10. Contingent liabilities

The Department is involved in various legal actions in the ordinary course of business, and also as a result of our role in administering the North American Free Trade Agreement (NAFTA) treaty. These claims include items with pleading amounts and others for which no amount is specified. Based on the Department's assessment, legal proceedings for claims estimated at $18,500,000,000 ($17,000,000,000 as at March 31, 2011) were pending at March 31, 2012. Of this amount, three specific cases account for $16,500,000,000, with one case representing $10,000,000,000 inactive since 1999. Twenty-three cases make up the remaining $2,000,000,000. Some of these claims are at a very early stage, and although all claims are reviewed quarterly by legal counsel, pending claims and legal proceedings in which the outcome is not determinable totalled approximately $6,500,000,000 ($5,300,000,000 as at March 31, 2011). Of this amount, $5,200,000,000 ($165,000,000 as at March 31, 2011) relates to litigation where another government department has been named as a co-defendant.

Some of these potential liabilities may translate into actual liabilities as a result of court decisions or out-of-court settlements. Contingent loss accruals are established when it becomes likely that the Department will incur an expense and the amount can be reasonably estimated. No accrual ($3,055,000 as at March 31, 2011) has been recorded in 2011-12 in the Consolidated Statement of Financial Position under Accrued Liabilities. In management's opinion, the ultimate disposition of these actions, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Department.

11. Related party transactions

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

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

During the year, the Department 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 the Department's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	**2012**	2011
Employer's contribution to the health and dental insurance plans	**48,007**	65,959
Accommodation	**29,445**	29,126
Legal services	**1,952**	1,993
Workers' compensation charges	**305**	254
	79,709	97,332

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

(b) Other transactions with related parties

(in thousands of dollars)	**2012**	2011
Revenues - other government departments and agencies	**19,492**	18,583
Expenses - other government departments and agencies	**281,330**	314,016

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

(c) Administration of programs on behalf of other government departments

The Department has a number of memorandums of understanding (MOUs) with partner departments for the administration of unique, in-year programs delivered abroad. The Department issued approximately $162,000,000 ($181,000,000 in 2010-11) in payments for operational and program activities on behalf of our partner departments. The Department also collected approximately $301,000,000 ($264,000,000 in 2010-11) in revenues on behalf of our partner departments. These expenses and the revenues are not reflected in these Consolidated Financial Statements, but rather in the Financial Statements of the respective government departments.

11. Related party transactions (continued)

d) Management and administration of Common Services

In accordance with the Treasury Board Common Service Policy (February 1997), and the *Department of Foreign Affairs and International Trade Act* (1985), the Department has the mandate to manage the procurement of goods, services and real property at missions abroad. These common services are mandatory for departments to use when required to support Canada's diplomatic and consular missions abroad.

Memorandums of Understanding (MOUs) are in force to cover the roles and responsibilities of the Department, partner departments, Crown corporations and non-federal organizations. These MOUs outline the principles and operational guidelines for the management and administration of the common services regime, specifications with respect to services and service delivery standards, the funding of common services, the responsibilities of parties, and dispute resolution.

i. Common Services provided to other government departments:

To facilitate the efficient and cost-effective delivery of common services in support of the international programs of all federal departments and agencies of the Government of Canada, the Interdepartmental Memorandum of Understanding on Operations and Support at Missions Abroad (the Generic MOU) was standardized and signed in February 2009.

In the fiscal year ended March 31, 2012, expenses related to changes made to partner departments' representation abroad are reflected in the Consolidated Financial Statements of the Department. Authorities for the Department are adjusted via the Annual Reference Level Updates (ARLU) and the fiscal year's Supplementary Estimates.

ii. Common Services provided to co-locators:

To facilitate the efficient and cost-effective delivery of common services in support of the international programs of co-locators, individual MOUs are signed with each co-locator. Co-locators comprise all non-departmental entities, and include Crown corporations, provincial or territorial governments, foreign governments, and non-governmental organizations co-located at the Department's missions abroad.

In the fiscal year ended March 31, 2012, this activity amounted to approximately $21,208,600 ($17,386,200 in 2010-11) of in-year funds received via the Specified Purpose Accounts and Net-Voted Revenues.

This activity represents the recovery of costs incurred, where a portion can be re-spent under the TB Decision Letter on Net-Voting. Only those funds that were net-voted appear in the financial statements of the Department.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

12. Transfers from/to other government departments

Effective November 15, 2011, the Department transferred some responsibility for Informatic Hardware and Software to Shared Services Canada (SSC) in accordance with Order-in-Council 2011-1297, including the stewardship responsibility for the assets and liabilities related to the program.

The Department transferred the following assets and liabilities:

(in thousands of dollars)	SSC	Other transfers	Total
Assets			
Tangible capital assets (net book value)(Note 8)	8,917	(11)	**8,906**
Total assets transferred	8,917	(11)	**8,906**
Liabilities			
Vacation pay and compensatory leave	157		**157**
Employee future benefits (Note 5)	1,941		**1,941**
Total liabilities transferred	2,098	-	**2,098**
Adjustment to the departmental net financial position	6,819	(11)	**6,808**

In addition, the 2011 comparative figures have been reclassified on the consolidated Statement of Operations and Departmental Net Financial Position to present the revenues and expenses of the transferred operations.

Transferred Expenses	2012	2011
April 1st to November 14th, 2011	41,804	87,391
November 15th, 2011 to March 31st, 2012	31,989	-
Total expenses transferred to SSC	**73,793**	**87,391**

During the transition year, the Department continued to administer the transferred activities on behalf of Shared Services Canada. The administered expenses amounted to $32 million for the remainder of the year. These expenses are not recorded in these financial statements. No revenues were administered on behalf of Shared Services Canada.

Notes to the Consolidated Financial Statements (Unaudited)

As at March 31, 2012

13. Segmented information

Presentation by segment is based on the Department's Strategic Outcomes and Program Activities (PA) as presented in Note 1. The presentation by segment is based on the same accounting policies as in Note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

	Canada's International Agenda		*International Services for Canadians*			*Canada's International Platform*		*Internal Services*		
(in thousands of dollars)	International Policy Advice and Integration (PA # 1)	Diplomacy and Advocacy (PA # 2)	International Commerce (PA # 3)	Consular Services and Emergency Management (PA # 4)	Passport Canada (PA # 5)	Governance, Strategic Direction and Common Service Delivery (PA # 6)	Government of Canada Benefits (PA # 7)	Internal Services (PA # 8)	**Total 2012**	Restated (Note 12) Total 2011
Transfer payments										
Other countries and international organizations	3,323	459,089	-	-	-	-	-	-	**462,412**	481,380
Non-profit organizations	15,319	267,074	9,836	197	-	4,718	-	813	**297,957**	344,100
Other transfers to any other sector		21,037	**284**		-		-		**21,321**	27,362
Other levels of government in Canada	-	13,379	-	-	-	-	-	-	**13,379**	12,611
International Development Assistance	-	3,780	-	-	-	-	-	-	**3,780**	-
Industry			1,699		-		-		**1,699**	1,038
Individuals	-	-	-	-	-	-	88	-	**88**	83
Refund of prior years' transfer payments	(356)	(2,130)	(519)	(212)	0	(5,042)	0	(877)	**(9,135)**	(1,081)
Total transfer payments	18,286	762,229	11,301	(15)	-	(324)	88	(64)	**791,501**	865,493
Operating expenses										
Salaries and employee benefits	63,884	195,606	127,585	50,892	203,110	248,187	164,363	139,863	**1,193,490**	1,079,314
Professional and special services	7,309	43,544	10,614	4,337	35,637	106,939	3,631	17,502	**229,513**	248,789
Rentals	4,348	39,440	13,462	6,762	16,622	114,830	2,239	14,603	**212,306**	224,228
Transportation	3,112	18,544	4,520	1,847	29,836	45,616	40,286	7,551	**151,312**	151,464
Amortization	397	103	143	87	10,990	74,528	-	4,061	**90,309**	90,181
Utilities, materials and supplies	1,620	9,632	2,349	960	(1,471)	24,234	-	3,915	**41,239**	43,459
Acquisition of machinery and equipment, including parts and consumables	711	3,700	1,164	6,594	28,462	22,474	-	1,201	**64,306**	56,366
Repair and maintenance	899	5,134	1,263	519	4,255	19,924	-	2,435	**34,429**	33,906
Information	477	2,852	695	284	4,028	6,750	-	1,166	**16,252**	24,471
Other (including claims against the Crown)	199	1,149	287	117	-	139	3	309	**2,203**	136,631
Telecommunications	242	1,445	352	144	-	3,457	-	595	**6,235**	2,636
Foreign exchange loss	-	-	-	-	-	-	-	-	**-**	1,658
Bad debt	-	-	-	-	-	32	-	298	**330**	1,102
Total operating expenses	**83,198**	**321,149**	**162,434**	**72,543**	**331,469**	**667,110**	**210,522**	**193,499**	**2,041,924**	2,094,205
Total expenses	**101,484**	**1,083,378**	**173,735**	**72,528**	**331,469**	**666,786**	**210,610**	**193,435**	**2,833,425**	2,959,698
Revenues										
Sale of goods and services	-	9,508	2,489	101,043	288,999	59,873	-	-	**461,912**	426,543
Gain on disposal of tangible capital assets (net)	220	57	79	48	-	41,346	-	2,253	**44,003**	475
Foreign exchange net gain	110	1,331	24	11	90	2,069	-	137	**3,772**	-
Other non-tax revenue	2	10	33	1	233	871	-	8	**1,158**	776
Interest on non-tax revenue	10	58	14	6	-	137	-	31	**256**	833
Revenues earned on behalf of Government	(394)	(829)	(2,817)	(97,641)	-	(80,121)	-	(3,060)	**(184,862)**	(137,595)
Total revenues	**(52)**	**10,135**	**(178)**	**3,468**	**289,322**	**24,175**	**-**	**(631)**	**326,239**	291,032
Net cost from continuing operations	**101,536**	**1,073,243**	**173,913**	**69,060**	**42,147**	**642,611**	**210,610**	**194,066**	**2,507,186**	2,668,666

14. Accounting changes

During 2011, amendments were made to *Treasury Board Accounting Standard 1.2—Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012. The significant changes to the Department's financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

Net debt (calculated as liabilities less financial assets) is now presented in the Consolidated Statement of Financial Position. Accompanying this change, the Department now presents a Statement of Change in Departmental Net Debt and no longer presents a Statement of Equity.

Revenue is now presented net of non-respendable amounts in the Consolidated Statement of Operations and Departmental Net Financial Position. The effect of this change was to increase the net cost of operations before government funding and transfers by $184,862,000 for 2012 ($137,595,000 for 2011).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Consolidated Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers." In previous years, the Department recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by $2,574,278,000 for 2012 ($2,787,314,000 for 2011).

The table below highlights the specific changes within the Statements as a result of the revised Standard:

(in thousands of dollars)	2011 Previously stated	Effect of change	Restated
Consolidated Statement of Operations and Departmental Net Financial Position			
Revenues	428,627	(137,595)	**291,032**
Government funding and transfers			
Net cash provided by Government	-	2,675,694	**2,675,694**
Change in due from Consolidated Revenue Fund	-	14,332	**14,332**
Services provided without charge by other government departments	-	97,332	**97,332**
Transfer of assets and liabilities to other government departments	-	(44)	**(44)**

15. Comparative information

Comparative figures have been reclassified to conform to those of the current year.

DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE

Annex to the

Statement of Management Responsibility Including Internal Control over Financial Reporting

Fiscal Year 2011-12

1 Introduction

This document is the third annual annex to the Department of Foreign Affairs and International Trade's (DFAIT) *Statement of Management Responsibility Including Internal Control Over Financial Reporting*. As required by the Treasury Board *Policy on Internal Control* (PIC), this annex provides summary information on the measures taken by DFAIT to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by DFAIT as at March 31, 2012, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the Department.

The system of ICFR is not designed to eliminate every possible financial reporting risk, rather to mitigate risk to a reasonable level with controls that are balanced with, and proportionate to, the risks they aim to mitigate. The maintenance of an effective system of ICFR is an on-going process designed to identify, assess effectiveness, and adjust as required, key risks and associated key controls as well as to monitor performance in support of continuous improvement. The scope, pace and status of departmental assessments of the effectiveness of the system of ICFR will vary from one department to another based on risks, and taking into account the unique circumstances of each department.

1.1 Authority, Mandate and Program Activities

The strategic direction given to the Department's mandate and role comes from the three strategic outcomes as identified in the Department's Program Activity Architecture:

- **Canada's International Agenda:** The international agenda is shaped to Canada's benefit and advantage in accordance with Canadian interests and values;
- **International Services for Canadians:** Canadians are satisfied with commercial, consular and passport services; and
- **Canada's International Platform:** The Department of Foreign Affairs and International Trade maintains a mission network of infrastructure and services to enable the Government of Canada to achieve its international priorities.

In accordance with the *Department of Foreign Affairs and International Trade Act*, the Department has the mandate to manage and direct Canada's diplomatic and consular missions. This includes the supervision of the official activities of the various departments and agencies of the Government of Canada represented abroad.

Detailed information on DFAIT's authority, mandate and program activities can be found in the *Departmental Performance Report (new hyperlink required*) and the *Report on Plans and Priorities (new hyperlink required).*

1.2 Financial Highlights

Below is key financial information for fiscal year 2011-12. More information can be found in DFAIT's financial statements for the fiscal year ended March 31, 2012. Information can also be found in the Public Accounts of Canada.

- DFAIT received Parliamentary authority to spend $2.91B.
- Total expenses were $2.83B, including Transferred Operations. Salaries and wages comprise the majority (42% or $1.19B) followed by transfer payments (28% or $792M).
- Total (gross) revenues were $511M. Passport Canada's revenue represents 57% or $289M of total revenues.
- Tangible capital assets represent 77% of departmental total assets ($1.60B). Accounts payable and accrued liabilities comprise 62% of total liabilities ($534M).
- DFAIT's operations are conducted at Headquarters in the National Capital Region, in 18 offices across Canada and in 176 missions abroad.
- DFAIT utilizes IMS, a SAP-based software, as its primary financial system, with feeder systems providing source information to IMS.
- DFAIT's financial statements include the accounts of Passport Canada. Passport Canada is a separate operating agency and is responsible for its own assessment of internal control over financial reporting.

1.3 Service Arrangements relevant to Financial Statements

DFAIT relies on other government departments for the processing of many of the transactions that are recorded in its financial statements:

- Public Works and Government Services Canada (PWGSC) centrally administers the payment of Canada based salaries and the procurement of goods and services, as well as the provision of accommodations in Canada;
- Treasury Board Secretariat provides the Department with information used to calculate various accruals and allowances, such as the accrued severance liability for Canada based staff; and
- The Department of Justice provides legal services to DFAIT.

In accordance with the Treasury Board Common Services Policy and with the *Department of Foreign Affairs and International Trade Act*, DFAIT is mandated to manage the procurement of goods, services and real property when required for diplomatic and consular purposes. Partner departments provide DFAIT with agreed levels of funding for the delivery of common services using appropriate financial instruments; supplementary estimates and reference level funding through the Annual Reference Level Update. The costs associated with delivering these common services are included in DFAIT's expenses.

DFAIT is also responsible for managing the payment of program-specific expenditures and the collection of program-specific revenues on behalf of partner departments. These revenues and expenses flow back to the other departments through the use of Interdepartmental Settlements and will appear on the financial statements of the associated partner department.

1.4 Material changes in fiscal-year 2011-2012

Effective May 18, 2011 the responsibility for making payments to the National Capital Commission on behalf of the Government of Canada was transferred from Transport Canada to DFAIT. Pursuant to Treasury Board Accounting Standards, these payments will not be recorded in the Department's financial statements.

Effective November 15, 2011, the Department transferred the responsibility for the operation and support of the MITNET global telecommunications network and voice, data and video communications to Shared Services Canada (SSC) in accordance with Order-in-Council 2011-1297. Associated expenses ($32M) and the actual amount of assets ($8.91M) and liabilities ($2.10M) have been deducted from the departmental financial statements as of November 15, 2011.

A Transfer Submission was approved by Treasury Board (TB) ministers on September 22, 2011 that transfers certain authorities to DFAIT with respect to the management of locally engaged staff (LES) pension, insurance and social security retroactive to April 1, 2011. These expenses, previously disclosed only as a note to the financial statements, will now be recorded as a departmental expense. The impact on the 2011-12 financial statements is an increase of $60M in expenses for LES pension, insurance and social security benefits.

In July 2011, Mr. Nadir Patel replaced Mr. Gordon White as the Department's CFO. Mr. Rob Dufresne was acting CFO from May 2011 to July 2011.

2. DFAIT's Control Environment relative to ICFR

DFAIT recognizes the importance of direction from senior management to help ensure that staff at all levels understand their role in maintaining an effective system of internal control and are well equipped to exercise these responsibilities. The Department's focus is to continually strengthen its internal control environment to ensure risks are managed through a responsive and risk-based approach that enables on-going improvement.

2.1 Key Positions, Roles and Responsibilities

DFAIT is one of the most complex departments in the Government of Canada, responsible for the conduct of Canada's international affairs, including global trade and commerce. The scope of its mandate and the complexity of its activities require two deputy ministers and an associate deputy minister.

Deputy Minister of Foreign Affairs – Is the Accounting Officer for DFAIT and assumes overall responsibility and leadership for the stewardship, management and oversight of departmental resources, as well as for the measures taken to maintain an effective system of internal control. The Deputy Minister of Foreign Affairs co-chairs the Executive Council.

Deputy Minister of International Trade - In accordance with sections 8.1 and 8.2 of the *Department of Foreign Affairs and International Trade Act* the Deputy Minister of International Trade shall have the rank and status of a deputy head and shall, under the Deputy Minister of Foreign Affairs exercise and perform such powers, duties and functions as deputies of the Minister and otherwise as the Minister may specify. The Deputy Minister of International Trade co-chairs the Executive Council.

Associate Deputy Minister of Foreign Affairs - In accordance with section 8.1 of the *Department of Foreign Affairs and International Trade Act* the Associate Deputy Minister of Foreign Affairs shall have the rank and status of a deputy head of a department and shall, under the Deputy Minister of Foreign Affairs exercise and perform such powers, duties and functions as deputies of the Minister and otherwise as the Minister may specify. The Associate Deputy Minister of Foreign Affairs chairs the Executive Council in the absence of the co-chairs.

Chief Financial Officer (CFO) - DFAIT's CFO provides direct support to the Deputies 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. The CFO is part of the Executive Council, providing functional leadership and a focus on financial management.

Senior Departmental Managers – DFAIT's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of the system of ICFR falling within their mandate.

Heads of Mission (HOMs) - DFAIT's Heads of Mission are responsible for the management and direction of their missions' activities including maintaining and reviewing the effectiveness of the system of ICFR falling within their area of responsibility.

Chief Audit Executive (CAE) - DFAIT's CAE reports directly to the Deputy Minister of Foreign Affairs and provides assurance through periodic internal audits that are instrumental to the maintenance of an effective system of ICFR.

Departmental Audit Committee (DAC) - The DAC is an advisory committee that provides objective views on the Department's risk management, control and accountability processes. It comprises four external members, including the Chair.

Executive Council – The Executive Council is the senior decision-making committee of DFAIT. It provides strategic direction and oversight to support the achievement of the Department's three strategic outcomes.

2.2 Key Measures taken by DFAIT

DFAIT's control environment also includes a series of measures to equip its staff to manage risks well through raising awareness, providing appropriate knowledge and tools as well as developing skills.

Key elements include:

- The Executive Council which is supported by three sub-committees: the Resource Management Committee; the Policy and Programs Committee; and the Operations Committee;
- A Values and Ethics Division led by the Inspector General, and reporting directly to the Deputy Minister of Foreign Affairs;
- DFAIT's Conduct Abroad Code and the Public Service Values and Ethics Code;
- Regularly updated delegated authorities instrument;
- Preparation of a Corporate Risk Profile, which helps the Department establish direction for managing corporate risks;
- Regular reporting of financial performance including the preparation and publishing of quarterly financial reports, which began in fiscal year 2011-12;
- Performance Management Agreements, which include strengthened financial management as a departmental priority;
- Training and communications in core areas of financial management;
- Departmental policies tailored to DFAIT's control environment;
- IT processing systems to achieve greater security, integrity, efficiency and effectiveness;

- A risk-based internal audit plan, with annual coverage of governance and risk management; and
- Mission inspections performed annually by the Office of the Inspector General.

The Departmental Audit Committee's mandate is to review and provide advice to the Deputy Ministers on key financial management reports and disclosures of the Department, such as the Annual Financial Statements.

3. Assessment of DFAIT's system of ICFR

3.1 Assessment Approach

In support of the Policy on Internal Control, an effective system of ICFR has the objective to provide reasonable assurance that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded; and
- Applicable laws, regulations and policies are followed.

A fully assessed system of ICFR will require DFAIT to document the processes significant to the compilation of the financial statements, identify the key controls and then test those controls for design and operating effectiveness. Once the key controls are operating effectively, and as designed, the Department will implement an on-going monitoring program to sustain and continuously improve the system of ICFR.

Documentation refers to the development of flowcharts and narrative descriptions, including the identification of key control points by using control matrices.

Design effectiveness means to ensure that key control points are aligned with the risks they aim to mitigate and that any remediation is addressed. A walk-through will be performed in order to analyze the design effectiveness of key controls and identify any gaps, or areas for improvement.

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

3.2 DFAIT's Assessment Scope

At the beginning of each fiscal year, the Internal Control team develops a risk-based assessment plan for the year. The scope, approach and methodology as well as the ensuing results and action plans are used in preparation of this Annex.

The Framework was enhanced in 2011-12 with the development of a standardized format to be used in reporting the results of design and operating effectiveness testing.

A Mission-specific Financial Statement Risk Assessment was completed in 2011-12. The Risk Assessment results were used to identify the mission-specific in-scope processes and determine in-scope locations. It also formed the basis for the Policy on Internal Control Mission Implementation Strategy. The PIC Mission Implementation Strategy proposes the development of an inventory of Risks and Key Controls for each of the five mission-specific processes that would be rolled out to each of the 23 in-scope locations. Over time, a walk through assessment (design effectiveness) and a test of operating effectiveness would be conducted at each in-scope location.

The scope of the 2011-12 assessment includes the two foundational elements and 6 out of 10 of the business process elements identified in the previous year.

Foundational Elements

Entity Level Controls - Follow-up was completed on the status of management action plans to remediate previously identified design gaps.

Information Technology General Controls - Follow-up was conducted on the remediation of the design effectiveness by determining the status of all management action plan items to address previously identified design gaps. Control design and operating effectiveness of remediated IT General Controls were then evaluated.

Business Process Elements

Canada based staff (CBS) Payroll - Completed the design effectiveness assessment. Recommendations were developed to address any observed weaknesses, along with management action plans for remediation. Operating effectiveness testing has begun on those controls which were found to be designed effectively.

Headquarters (HQ) Payments - Updated the documentation to reflect a major change in the HQ payments process from full verification to verification based on statistical sampling. The assessment of design effectiveness has been completed.

Year End Procedures - Completed the scoping exercise and documentation of the process.

Revenue - Completed the scoping exercise and documentation of the process.

Grants and Contributions - Completed the scoping exercise and documentation of the process has commenced.

Capital Asset Management - This documentation was done in conjunction with the Capital Asset review. The Capital Asset review also addressed some design weaknesses at the operational level.

3.3 Concurrent Activities

In addition to the assessment activities identified in the previous section, DFAIT is also working on a variety of initiatives designed to strengthen financial processes and associated controls through standardized solutions. These initiatives include:

- Locally Engaged Staff (LES) Payroll, Pension and Benefits project. The objective of this project is to introduce a standard global payroll solution at over 170 missions abroad.
- Standard Payment System (SPS) – Mission Conversion project. The objective of this project is to create an International Payments Platform using the Government of Canada SPS system.

- Materiel Management Renewal project. This project will provide a standard corporate material management business process with integrated barcode/RFID technology.
- The implementation of the Financial Management Advisor model, which will improve the degree of CFO oversight and increase the assurance level of senior departmental managers with respect to their own financial management accountabilities.

4. DFAIT's Assessment Results

DFAIT's Assessment Results will summarize the significant findings of the activities undertaken as described in section 3.2 Assessment Scope.

4.1 Design Effectiveness of Key Controls

During 2011-12 DFAIT addressed the design effectiveness of 5 processes: Entity Level Controls (ELCs); Information Technology General Controls (ITGCs); Canada Based Staff (CBS) Payroll; Headquarters (HQ) Payments; and Capital Assets.

ELCs

The (2010-11) gap assessment report, which covered the spectrum of ELC components, contained 13 observations and recommendations, all of which were addressed in the Management Action Plan completed in 2011-12. At year-end, 11 of the 13 had been fully implemented or resolved while the remaining two are dependent on the content and effective date of the new DFAIT Values and Ethics Code.

ITGCs

During 2011-12, the status of all the management action plan items was updated. The majority of actions had been implemented and a Remediation Assessment was commissioned. The results of this assessment can be found in section 4.2 Operating Effectiveness of Key Controls.

CBS Payroll

The design effectiveness of the Canada Based Staff (CBS) Payroll process was assessed during 2011-12. This included gap identification and remediation recommendations, which were reported in the standardized format now being used to report the results of design and operating effectiveness testing. The gaps identified included verification of financial and staffing authority on Letters of Offer, timely notification of employee departures and secondments, and the calculation of certain payment and benefits estimates**.** At year-end, the management action plan addressing the gaps had been completed and the implementation of recommendations had commenced.

HQ Payments

A review of the design effectiveness of the HQ payment process during 2010-11 revealed a number of inefficiencies. As a result, a new account verification methodology (statistical sampling) was introduced. In 2011-12, design effectiveness testing of key controls was based on this new methodology. Given the new account verification methodology, reporting on results of the post-payment samples is now a key internal control. Some areas for strengthening this new reporting process have been identified. Additionally, certain weaknesses in the process of creating and amending vendor master records were observed.

Capital Assets

A Capital Asset Review was undertaken by the Corporate Accounting group with the objectives of defining clear accountabilities to ensure sound stewardship over asset management and improving the overall Capital Asset process. While not a complete design effectiveness assessment, the processes were mapped and then compared against the processes outlined in the Comptroller General's Common Financial Business Model for Capital Assets. This comparison identified several inefficiencies, system limitations and opportunities to clarify roles and responsibilities. Recommendations covering all of the areas identified during the review were made and action plans are being developed.

4.2 Operating Effectiveness of Key Controls

Responsibility for testing the operating effectiveness of key controls resides with the CFO Branch. In addition to the assessment work performed in compliance with the Policy on Internal Control, the Office of the Chief Audit Executive (CAE) performs audits which help to confirm the operating effectiveness of internal controls over financial reporting.

During 2011-12 the CFO Branch began testing the operating effectiveness of two processes: Information Technology General Controls (ITGCs) and Canada Based Staff (CBS) Payroll.

ITGCs

During 2011-12, DFAIT performed a Remediation Assessment for the Effectiveness of IT General Controls. Resources permitting, IMS application-level technical security findings (BASIS review) will be addressed during 2012-13.

The previous assessment reported 18 high and 18 medium risk control weaknesses. Based on the current assessment, DFAIT found that of those 36 control weaknesses, 20 were remediated. There were 16 control weaknesses that remained outstanding, of which two were high risk, 10 were medium risk, and four were low risk.

The two high risk items that remain outstanding are:

- In relation to Regional Pay System (RPS) Access, it was noted that there continued to be active RPS user IDs belonging to departed employees, and that there are current users with segregation of duties conflicts based on the guidance published by PWGSC for distributing access to that system.
- During the review of access, it was noted that security administrators are not effectively being notified of employee departures (terminations, transfers, retirements) from DFAIT. Instead the security administrators are relying on inactive account reviews or are performing queries in PeopleSoft to determine if departures have occurred. As a result, terminated/transferred/retired employees are not having their access removed from systems and buildings in a timely manner, which can lead to unauthorized access to systems, data and other assets.

The issue of ineffective notification of employee departures was also noted in the design effectiveness testing of CBS Payroll.

CBS Payroll

The operating effectiveness testing of the CBS Payroll process began during 2011-12 and will continue during 2012-13. Errors detected in the methodology of calculating payroll estimates have already been addressed and the corrections are reflected in the 2011-12 financial statements.

CAE Confirmation of ICFR

The Office of the CAE carries out comprehensive audits of particular subjects, examining areas of the overall management control framework assessed as higher risk. In some cases, these audits include a review of the internal controls over financial reporting. The CAE carried out a number of audits that confirmed the operating effectiveness of these controls. The following highlights the internal controls over financial reporting reviewed during 2011-2012:

- Specified procedures on Note 3 of the Departmental Financial Statements on an annual basis. Each year, the auditors noted that; all amounts had been reconciled and were disclosed in accordance with the disclosure requirements of Treasury Board Accounting Standard (TBAS) 1.2.
- Audit work recommended the consistent use of the materiel management module of the financial system to capture all relevant information and ease the obligations related to reporting. Management has an action plan to address this issue.
- As part of the comprehensive audit of Real Property, the audit determined that there is a structured cost-recovery mechanism that is a collaborative process with tenants, and ensures effective recovery of costs as established in formal agreements.
- Specified procedures related to the 2010-11 Departmental Financial Statements were carried out to assess the accuracy and completeness of three significant expenditure categories: Canada-Based Staff Pay and Benefits; Non-Assessed Transfer Payments; and Tangible Capital Assets. No discrepancies or errors were identified.

5. DFAIT's Action Plan

5.1 Progress as of March 2012

During 2011-12, DFAIT has continued to make progress in assessing and improving its key controls. Below is a summary of the main progress made by the Department.

Commitments from the previous year's Annex

Commitments from previous year's Annex	Status	Comments
Remediate the identified design gaps in ELC process	Substantially advanced	11 of 13 design recommendations remediated. The other 2 are dependent on the content and effective date of the new DFAIT Values and Ethics Code.
Continue the remediation of the design effectiveness of ITGC process. Begin testing operating effectiveness.	Commitment Exceeded	Design effectiveness remediation had advanced far enough to allow for risk-based testing of operating effectiveness.
Complete design effectiveness for CBS Payroll Process. Commence the operating effectiveness	Commitment Met	Design effectiveness including gap identification, recommendations and management action plan. Operating effectiveness testing has begun for

Commitments from previous year's Annex	Status	Comments
testing phase.		those key controls that were either remediated or found to be designed effectively.
Complete design effectiveness testing for HQ Payments process. Commence the operating effectiveness testing phase.	Substantially Advanced	Design effectiveness report including gap identification, observations and recommendations has been prepared.
Document the in-scope Year End Procedures process.	Commitment Met	All in-scope sub-processes were documented
Begin scoping and documentation of Capital Asset Management process, in conjunction with the Capital Asset Review.	Commitment Exceeded	All Capital Asset sub processes were documented. Additionally, high level process design gaps were identified, and management action plans developed.
Revenue process: Document all in-scope DFAIT revenue sub-processes	Commitment Met	All in-scope sub-processes were documented.
Begin scoping and documentation of the Grants and Contributions process.	Commitment Met	Scoping exercise was completed and approved. Documentation has begun.
Complete a mission-specific financial statement risk assessment. This assessment will also assist in the elaboration of a PIC implementation strategy for missions.	Commitment Met	The Risk Assessment results were used to identify the mission specific in-scope processes and determine in-scope locations. It also formed the basis for the PIC Implementation Strategy for Missions.
Develop a methodology for consistent reporting and follow-up on gaps or other corrections needed in design and operating effectiveness.	Commitment Met	Developed a standardized format that is being used in reporting testing results.

5.2 Action Plan

By end of 2012-13, DFAIT plans to:

ITGC Process: Complete the Operating Effectiveness testing for SAP BASIS.

Revenues Process: Perform the Design Effectiveness testing.

Foreign Service Directives Process: Complete the scoping exercise and process documentation.

Grants and Contributions Process: Complete documentation and Design Effectiveness testing.

CBS Payroll Process: Follow-up on the status of Design Effectiveness remediation and continue Operating Effectiveness testing.

HQ Payments Process: Work with staff in responsible areas to develop remediation plans and begin Operating Effectiveness testing if possible.

Year End Procedures: Perform both Design and operating Effectiveness testing.

Mission Specific Processes: As identified in the PIC Methodology for Missions Abroad report, create inventory of risks and controls.

DFAIT's overall assessment plan[1] for 2012-2013, and subsequent years. Steps to be completed by:

Business Process	Planning and Scoping	Document	Design Effectiveness	Operating Effectiveness
Entity-level controls (ELCs)	Complete	Complete	Complete	N/A[2]
Information technology general controls (ITGCs)	Complete	Complete	Complete	2012-13
Payroll - CBS	Complete	Complete	Complete	2012-13
Payroll - LES[3]	2013-14	2013-14	2013-14	2014-15
Payments - at HQ	Complete	Complete	Complete	2013-14
Payments - at Missions[3]	2013-14	2013-14	2013-14	2014-15
Capital asset management	Complete	Complete	2013-14	2014-15
Grants and Contributions	Complete	2012-13	2012-13	2013-14
Foreign Service Directives	2012-13	2012-13	2013-14	2013-14
Year End Procedures	Complete	Complete	2012-13	2012-13
Financial reporting	2013-14	2013-14	2014-15	2014-15
Revenues	Complete	Complete	2012-13	2013-14

[1] This plan is based on current resources and within the context of the department's current control environment. Major changes to departmental structure will impact timelines. The plan will be updated on an annual basis.

[2] The subjective nature of ELCs does not readily lend itself to determining operating effectiveness.

[3] A methodology for addressing the PIC at Missions has been developed and entails developing and communicating an inventory of risks and key controls rather than documenting processes at each Mission.