



# FINANCIAL STATEMENTS

# Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2013, and all information contained in these statements, rests with the management of the Canadian Nuclear Safety Commission (CNSC). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

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

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR), designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded, and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act*, as well as CNSC policies, authorities and statutory requirements, including the *Canadian Nuclear Safety Commission Cost Recovery Fees Regulations*.

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 CNSC; and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate the 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, 2013 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 CNSC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the CNSC's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the President.

The Office of the Auditor General – the independent auditor for the Government of Canada – has expressed an opinion on the fair presentation of the financial statements of the CNSC, which does not include an audit opinion on the annual assessment of the effectiveness of the CNSC's internal control over financial reporting. At the specific request of the CNSC, the Office of the Auditor General also audited and expressed an opinion on the CNSC's compliance with the *Canadian Nuclear Safety Commission Cost Recovery Fees Regulations*.



**Michael Binder**  
President

Ottawa, Canada  
July 8, 2013



**Michel Cavallin**  
Vice-President, Corporate Services Branch and  
Chief Financial Officer



## INDEPENDENT AUDITOR'S REPORT

To the Canadian Nuclear Safety Commission and the Minister of Natural Resources

### Report on the Financial Statements

I have audited the accompanying financial statements of the Canadian Nuclear Safety Commission, which comprise the statement of financial position as at 31 March 2013, and the statement of operations and net financial position, statement of change in net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In

making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Nuclear Safety Commission as at 31 March 2013, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Report on Other Legal and Regulatory Requirements

In my opinion, the Canadian Nuclear Safety Commission has complied, in all significant respects, with the *Canadian Nuclear Safety Commission Cost Recovery Fee Regulations* pursuant to the *Nuclear Safety and Control Act*.

Lissa Lamarche, CPA, CA  
Principal  
for the Auditor General of Canada

8 July 2013  
Ottawa, Canada

# Statement of Financial Position

As at March 31 (in thousands of dollars)

	2013	2012
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 4)	22,391	26,654
Vacation pay and compensatory leave	6,794	6,540
Deferred revenue (note 5)	2,235	2,270
Employee future benefits (note 6b)	18,676	17,622
Asset retirement obligation (note 7)	267	259
<b>Total liabilities</b>	<b>50,363</b>	<b>53,345</b>
<b>Financial assets</b>		
Due from the Consolidated Revenue Fund	22,434	27,021
Accounts receivable (note 8)	2,841	1,796
<b>Total financial assets</b>	<b>25,275</b>	<b>28,817</b>
<b>Net debt</b>	<b>25,088</b>	<b>24,528</b>
<b>Non-financial assets</b>		
Prepaid expenses	358	270
Tangible capital assets (note 9)	14,107	15,444
<b>Total non-financial assets</b>	<b>14,465</b>	<b>15,714</b>
<b>Net financial position</b>	<b>(10,623)</b>	<b>(8,814)</b>

Contractual obligations (note 13) and contingent liabilities (note 14)

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



**Michael Binder**  
President



**Michel Cavallin**  
Vice-President, Corporate Services Branch and  
Chief Financial Officer

Ottawa, Canada  
July 8, 2013



## Statement of Operations and Net Financial Position

For the year ended March 31 (in thousands of dollars)

	Planned results* 2013	2013	2012
<b>Expenses</b>			
Salaries and employee benefits	112,283	<b>113,898</b>	108,416
Professional and special services	18,461	<b>17,496</b>	15,936
Accommodation	8,412	<b>8,810</b>	8,643
Travel and relocation	4,235	<b>4,623</b>	4,416
Amortization	4,013	<b>4,031</b>	3,859
Furniture, repairs and rentals	3,842	<b>3,746</b>	3,362
Communication and information	2,026	<b>1,198</b>	1,712
Grants and contributions	1,770	<b>1,452</b>	1,163
Utilities, materials and supplies	957	<b>738</b>	979
Other	196	<b>32</b>	284
<b>Total expenses (note 10)</b>	156,195	<b>156,024</b>	148,770
<b>Revenues</b>			
Licence fees	106,919	<b>105,036</b>	101,746
Special projects	4,123	<b>4,713</b>	2,933
Other	20	<b>45</b>	15
<b>Total revenues (note 10)</b>	111,062	<b>109,794</b>	104,694
<b>Net cost of operations before government funding and transfers</b>	45,133	<b>46,230</b>	44,076
<b>Government funding and transfers</b>			
Net cash provided by Government	23,601	<b>35,825</b>	31,158
Change in due from Consolidated Revenue Fund	934	<b>(4,587)</b>	(37)
Services provided without charge by other government departments (note 11a)	19,211	<b>13,832</b>	13,251
Transfer of assets to and liabilities paid on behalf of other government departments (note 12)	–	<b>(649)</b>	(1,456)
<b>Net cost of operations after government funding and transfers</b>	1,387	<b>1,809</b>	1,160
<b>Net financial position – Beginning of year</b>	(7,359)	<b>(8,814)</b>	(7,654)
<b>Net financial position – End of year</b>	(8,746)	<b>(10,623)</b>	(8,814)

Segmented information (note 10)

\* Planned results amounts as reported in the Future-Oriented Statement of Operations included in the 2012–13 Report on Plans and Priorities

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

## Statement of Change in Net Debt

For the year ended March 31 (in thousands of dollars)

	Planned results* 2013	2013	2012
<b>Net cost of operations after government funding and transfers</b>	1,387	1,809	1,160
<b>Change due to tangible capital assets</b>			
Acquisition of tangible capital assets (note 9)	2,560	2,907	3,744
Amortization of tangible capital assets (note 9)	(4,013)	(4,031)	(3,859)
Proceeds from disposal of tangible capital assets	–	(33)	(71)
Gain (loss) on disposal of tangible capital assets	–	26	(39)
Transfer of assets to other government departments (note 12)	–	(206)	(1,646)
<b>Total change due to tangible capital assets</b>	<b>(1,453)</b>	<b>(1,337)</b>	<b>(1,871)</b>
<b>Change due to prepaid expenses</b>	<b>(41)</b>	<b>88</b>	<b>166</b>
<b>Net increase (decrease) in net debt</b>	<b>(107)</b>	<b>560</b>	<b>(545)</b>
<b>Net debt – Beginning of year</b>	<b>22,667</b>	<b>24,528</b>	<b>25,073</b>
<b>Net debt – End of year</b>	<b>22,560</b>	<b>25,088</b>	<b>24,528</b>

\* Planned results amounts as reported in the Future-Oriented Statement of Operations included in the 2012–13 *Report on Plans and Priorities*

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

## Statement of Cash Flows

For the year ended March 31 (in thousands of dollars)

	2013	2012
<b>Operating activities</b>		
<b>Net cost of operations before government funding and transfers</b>	<b>46,230</b>	<b>44,076</b>
<b>Non-cash items:</b>		
Amortization of tangible capital assets (note 9)	(4,031)	(3,859)
Gain (loss) on disposal of tangible capital assets	26	(39)
Services provided without charge by other government departments (note 11a)	(13,832)	(13,251)
<b>Variations in Statement of Financial Position:</b>		
Increase (decrease) in accounts receivable	1,045	(214)
Increase in prepaid expenses	88	166
Decrease in accounts payable and accrued liabilities	4,263	404
Increase in vacation pay and compensatory leave	(254)	(573)
Decrease in deferred revenue	35	165
(Increase) decrease in employee future benefits	(1,054)	634
Increase in asset retirement obligation	(8)	(24)
Liabilities paid on behalf of other government department (note 12)	443	–
<b>Cash used in operating activities</b>	<b>32,951</b>	<b>27,485</b>
<b>Capital investing activities</b>		
Acquisitions of tangible capital assets (note 9)	2,907	3,744
Proceeds from disposal of tangible capital assets	(33)	(71)
<b>Cash used in capital investing activities</b>	<b>2,874</b>	<b>3,673</b>
<b>Net cash provided by Government of Canada</b>	<b>35,825</b>	<b>31,158</b>

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

# Notes to the Financial Statements

## 1. AUTHORITY AND OBJECTIVES

The Canadian Nuclear Safety Commission (CNSC) was established on May 31, 2000, with the coming into effect of the *Nuclear Safety and Control Act* (NSCA). It replaced the Atomic Energy Control Board (AECB) established in 1946 by the *Atomic Energy Control Act*. The CNSC is a departmental corporation listed in Schedule II of the *Financial Administration Act*, and reports to Parliament through the Minister of Natural Resources.

The NSCA provides comprehensive powers to the CNSC to establish and enforce national standards for nuclear energy in the areas of health, safety and environment. It establishes a basis for implementing Canadian policy and fulfilling Canada's obligations with respect to the non-proliferation of nuclear weapons. The CNSC is empowered to require financial guarantees, order remedial action in hazardous situations, and require responsible parties to bear the costs of decontamination and other remedial measures.

The CNSC's objectives are to:

- regulate the development, production and use of nuclear energy and the production, possession and use of nuclear substances, prescribed equipment and information, in order to: a) prevent unreasonable risk to the environment, to the health and safety of persons and to national security; and b) achieve conformity with measures of control and international obligations to which Canada has agreed
- disseminate scientific, technical and regulatory information concerning: a) the activities of the CNSC; b) the development, production, possession, transport and use of nuclear energy and substances; and c) the effects of nuclear energy and substance use on the environment and on the health and safety of persons

Pursuant to the *Canadian Nuclear Safety Commission Cost Recovery Fees Regulations* (2003), the CNSC recovers costs related to its regulatory activities from users licensed under the NSCA. These costs include the technical assessment of licence applications, compliance inspections, and the development of regulatory documents.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Significant accounting policies are as follows:

### (a) Parliamentary authorities and revenue spending authority

The CNSC is financed by the Government of Canada through Parliamentary and statutory authorities. Included in the statutory appropriation is a revenue spending authority, which allows the CNSC to spend licence fee revenue. Financial reporting of authorities provided to the CNSC do not parallel financial reporting according to generally accepted accounting principles, since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and in the Statement of Operations and Net 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 Statement of Operations and Net Financial Position are the amounts reported in the Future-Oriented Statement of Operations included in the 2012–13 *Report on Plans and Priorities*.

### (b) Net cash provided by Government

The CNSC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the CNSC is deposited to the CRF, and all cash disbursements made by the CNSC 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 and agencies of the Government.

### (c) Due from the Consolidated Revenue Fund

The Due from the CRF is the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. The Due from the CRF represents the net amount of cash that the



CNSC is entitled to draw from the CRF without further authorities to discharge its liabilities. This amount is not considered to be a financial instrument.

#### (d) Revenues

Revenue is recognized in the period in which the underlying transaction or event that gave rise to the revenue takes place. Licence fee revenue is recognized on a straight-line basis over the period to which the fee payment pertains (normally three months or one year). Licence fees received for future year licence periods are recorded as deferred revenue.

Certain educational institutions, not-for-profit research institutions wholly owned by educational institutions, publicly funded health care institutions, not-for-profit emergency response organizations and federal government departments and agencies are not subject to the *Canadian Nuclear Safety Commission Cost Recovery Fees Regulations* (2003). The CNSC provides licences to these organizations free of charge. The value of licences provided free of charge is calculated on the same basis as licence fees for organizations subject to the Regulations. The CNSC does not include the foregone revenue associated with these licences in the Statement of Operations and Net Financial Position.

#### (e) Payable to licensees

Payable to licensees represents the calculation of the excess of collection of fees charged over the actual fees earned as at year-end.

#### (f) Vacation pay and compensatory leave

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

#### (g) Grants and contributions

Grants are recognized in the year in which the conditions for payment are met. Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.

#### (h) Services provided without charge by other government departments

Services provided without charge by other government departments and agencies are recorded as operating expenses at their estimated cost. These include services such as accommodation provided by Public Works and Government Services Canada, contributions covering employer's share of employees' insurance premiums and costs paid by Treasury Board Secretariat, salaries and associated costs of legal services provided by Justice Canada, audit services provided by the Office of the Auditor General, and workers' compensation benefits provided by Human Resources and Skills Development Canada.

#### (i) Employee future benefits

- **Pension benefits:** Eligible employees participate in the Public Service Pension Plan (PSPP), a multi-employer pension plan, administered by the Government. The CNSC's contributions to the PSPP are charged to expenses in the year incurred and represent the total CNSC obligation to the PSPP. The CNSC's responsibility with regard to the PSPP is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the PSPP's sponsor.
- **Severance benefits:** Employees 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 employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

#### (j) Accounts receivable

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The CNSC is not exposed to significant credit risk since all debtors require CNSC licences for their continued operation and the majority of these debtors are public institutions. The maximum exposure the CNSC has to credit risk is equal to the carrying value of its accounts receivable.

### (k) 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 a note to the financial statements.

### (l) Tangible capital assets

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

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

Asset class	Amortization period
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement
Buildings	20 to 30 years
Other vehicles	10 to 20 years
Furniture and equipment	5 to 20 years
Informatics equipment and software	2 to 5 years
Motor vehicles	4 years

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

### (m) Asset retirement obligation

The CNSC provides for its legal obligation, under a lease agreement, to return the premises to its original state. The asset retirement obligation is recognized in the year in which the associated leasehold improvement capital asset is put into use. The obligation is recorded at the net present

value of the estimated future cost of retiring the capital asset at the expiry of the lease period. The estimated cost of retirement is added to the carrying amount, and amortized over the related assets' useful life. The cost estimate is subject to periodic review, and any material changes in the estimated amount or timing of the underlying future cash flow are recorded as an adjustment to the provision. Upon settlement of the liability, a gain or loss will be recorded. As the provision is recorded based on the discounted value of the projected future cash flows, it is increased annually to reflect the passage of time by removing one year's discount. The accretion is charged to the expense in the Statement of Operations and Net Financial Position. Details of the liability are provided in note 7 of these financial statements.

### (n) Nuclear liability reinsurance account

The CNSC administers the nuclear liability reinsurance account on behalf of the federal government. The CNSC receives the premiums, paid by the operators of nuclear installations for the supplementary insurance coverage, and credits these to the nuclear liability reinsurance account in the Consolidated Revenue Fund. Since the CNSC does not have the risks and rewards of ownership, nor does it have accountability for this account, it does not include any of the associated financial activity or potential liability in its financial statements. Financial activity and liability is, however, reported in note 15.

### (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, 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.

### 3. PARLIAMENTARY AUTHORITIES

The CNSC receives its funding through Parliamentary and statutory authorities. Items recognized in the Statement of Financial Position and the Statement of Operations and Net Financial Position in one year may be funded through authorities in prior, current or future years. Accordingly, the CNSC 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 table:

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

(in thousands of dollars)	2013	2012
Net cost of operations before government funding and transfers	46,230	44,076
<b>Adjustments for items affecting net cost of operations but not affecting authorities:</b>		
Amortization of tangible capital assets	(4,031)	(3,859)
Increase in vacation pay and compensatory leave	(254)	(573)
Services provided without charge by other government departments	(13,832)	(13,251)
Revenues pursuant to Subsection 29.1(1) of the <i>Financial Administration Act</i>	109,749	104,678
(Increase) decrease in employee future benefits	(1,054)	634
Refund of prior years' expenditures	247	228
Other	(351)	226
	90,474	88,083
<b>Adjustments for items not affecting net cost of operations but affecting authorities:</b>		
Acquisitions of tangible capital assets	2,907	3,744
Increase in prepaid expenses	88	166
	2,995	3,910
<b>Current year authorities used</b>	<b>139,699</b>	<b>136,069</b>

#### (b) Authorities provided and used

(in thousands of dollars)	2013	2012
<b>PARLIAMENTARY AUTHORITY VOTED:</b>		
Vote 20 – Program expenditures	40,407	43,431
<b>STATUTORY:</b>		
Expenditures pursuant to Subsection 29.1(1) of the <i>Financial Administration Act</i>	87,309	81,734
Spending of proceeds from the disposal of surplus assets	54	11
Contributions to employee benefit plans	14,660	14,460
	142,430	139,636
<b>LESS:</b>		
Lapsed Vote 20 – Program expenditures	2,731	3,567
<b>Current year authorities used</b>	<b>139,699</b>	<b>136,069</b>

#### 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within six months of year-end.

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

(in thousands of dollars)	2013	2012
Accounts payable – Other government departments and agencies	10,728	11,312
Accounts payable – External parties	8,627	8,979
Accounts payable – Licensees	3,036	6,363
<b>Total accounts payable and accrued liabilities</b>	<b>22,391</b>	<b>26,654</b>

#### 5. DEFERRED REVENUE

Deferred revenue represents the balance at year-end of amounts received from external parties for licence fees prior to services being performed. Revenue is recognized on a straight-line basis (normally three months or one year) over the period in which the service is performed. Details of the transactions related to this account are as follows:

(in thousands of dollars)	2013	2012
Balance, beginning of year	2,270	2,435
Licence fee revenue recognized during the year	(2,207)	(2,385)
Licence fee received for future years	2,172	2,220
<b>Balance, end of year</b>	<b>2,235</b>	<b>2,270</b>

#### 6. EMPLOYEE FUTURE BENEFITS

##### (a) Pension benefits

The CNSC's employees participate in the Public Service Pension Plan (PSPP), 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 the Canada/Québec Pension Plans' benefits and are indexed to inflation.

Both the employees and the CNSC contribute to the cost of the PSPP. The 2012–13 expense amounts to \$10,467,089 (\$10,396,692 in 2011–12), which represents approximately 1.7 times (1.8 times in 2011–12) the contributions by employees.

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

##### (b) Severance benefits

The CNSC provides severance benefits to its employees, based on eligibility, years of service and salary at termination. 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)	2013	2012
Accrued benefit obligation, beginning of year	17,622	18,447
Transferred to other government department, effective November 15, 2011	–	(191)
Expense for the year	2,461	2,281
Benefits paid during the year	(1,407)	(2,915)
<b>Accrued benefit obligation, end of year</b>	<b>18,676</b>	<b>17,622</b>

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 commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date, or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

## 7. ASSET RETIREMENT OBLIGATION

The asset retirement obligation (obligation) is based on the current cost estimate of \$261,250 (2011–12 – \$261,250) of the site restoration plan. A revision in the estimate has been recognized using the current cost estimate which was indexed using the Bank of Canada's target inflation rate of 2% to reflect the estimated future cost of the site restoration plan. The CNSC recognizes the net present value, using the Government of Canada 10-year benchmark bond yield rate of 1.72% (2.08% in 2011–12), of the estimated future cost of \$304,584 (2011–12 – \$310,676), of restoring the leased premises at the expiry of the lease on March 31, 2020. As of March 31, 2013, the CNSC has an asset retirement obligation that can be reasonably estimated as follows:

(in thousands of dollars)	2013	2012
Balance, beginning of year	259	235
Revision in the estimate, timing and accretion of retirement expenditures	8	24
<b>Balance, end of year</b>	<b>267</b>	<b>259</b>

## 8. ACCOUNTS RECEIVABLE

The following table presents details of CNSC's accounts receivable:

(in thousands of dollars)	2013	2012
Receivables – Licence fees	2,914	2,083
Receivables – Suppliers	87	70
Receivables – Other government departments and agencies	233	13
	<b>3,234</b>	<b>2,166</b>
Allowance for doubtful accounts on receivables from licence fees	(393)	(370)
<b>Net accounts receivable</b>	<b>2,841</b>	<b>1,796</b>



## 9. TANGIBLE CAPITAL ASSETS

Cost (in thousands of dollars)	Opening balance	Acquisitions	Adjustments <sup>(1)</sup>	Disposals / Write-offs	Work in progress transfers	Closing balance
Buildings	93	–	(93)	–	–	–
Furniture and equipment	5,896	172	(57)	(294)	–	5,717
Informatics equipment and software	4,031	19	(174)	(18)	–	3,858
Leasehold improvements	12,137	–	–	(1)	–	12,136
Motor vehicles	715	90	5	(136)	–	674
Other vehicles	–	7	93	–	–	100
Work in progress – software	1,039	1,019	–	–	–	2,058
Work in progress – construction	7	1,600	–	–	–	1,607
<b>Total</b>	<b>23,918</b>	<b>2,907</b>	<b>(226)</b>	<b>(449)</b>	<b>–</b>	<b>26,150</b>

Accumulated amortization (in thousands of dollars)	Opening balance	Acquisitions	Adjustments <sup>(1)</sup>	Disposals / Write-offs	Work in progress transfers	Closing balance
Buildings	8	–	(8)	–	–	–
Furniture and equipment	2,112	517	(13)	(289)	–	2,327
Informatics equipment and software	1,557	838	(15)	(17)	–	2,363
Leasehold improvements	4,339	2,562	–	–	–	6,901
Motor vehicles	458	109	8	(136)	–	439
Other vehicles	–	5	8	–	–	13
<b>Total</b>	<b>8,474</b>	<b>4,031</b>	<b>(20)</b>	<b>(442)</b>	<b>–</b>	<b>12,043</b>

Net book value (in thousands of dollars)	2012	2013
Buildings	85	–
Furniture and equipment	3,784	3,390
Informatics equipment and software	2,474	1,495
Leasehold improvements	7,798	5,235
Motor vehicles	257	235
Other vehicles	–	87
Work in progress – software	1,039	2,058
Work in progress – construction	7	1,607
<b>Total</b>	<b>15,444</b>	<b>14,107</b>

The capital costs associated with the in-house development of software and improvements to leased accommodations are recorded as work-in-progress until they are completed and are put into use. During the year ended March 31, 2013, no work in progress was completed and put into use.

<sup>(1)</sup> The adjustments reflect the transfer of assets between the CNSC and other government departments (refer to note 12 for further details on the transfers) as well as a reclassification of assets between two categories to provide better information.

## 10. SUMMARY OF SEGMENTED EXPENDITURES AND REVENUES BY COST RECOVERY FEE CATEGORY

Presentation by segment is based on CNSC's business lines. The presentation by segment is based on the same accounting policies as described in the Summary of Significant Accounting Policies in note 2. The following table presents the expenses incurred and revenues generated for the main business lines. The segment results for the period are as follows:

(in thousands of dollars)	Revenue	Licences provided free of charge (note 16)	2013 total value of licences and other revenue	2012 total value of licences and other revenue	2013 cost of operations	2012 cost of operations
<b>LICENSING, CERTIFICATION AND COMPLIANCE</b>						
Power reactors	68,067	–	68,067	66,480	68,067	66,566
Non-power reactors	325	1,293	1,618	1,700	1,618	1,702
Nuclear research and test establishments	9,481	–	9,481	10,877	9,481	10,891
Particle accelerators	–	1,002	1,002	1,443	1,002	1,444
Uranium processing facilities	3,489	–	3,489	3,805	3,489	3,810
Nuclear substance processing facilities	1,240	–	1,240	953	1,240	954
Heavy water plants	13	–	13	13	13	13
Radioactive waste facilities	8,181	–	8,181	4,911	8,181	4,917
Uranium mines and mills	8,269	787	9,056	8,767	9,056	8,778
Waste nuclear substance	403	986	1,389	1,652	1,406	1,654
<b>Total regulatory activity plan fees</b>	<b>99,468</b>	<b>4,068</b>	<b>103,536</b>	<b>100,601</b>	<b>103,553</b>	<b>100,729</b>
Nuclear substances	4,640	4,530	9,170	9,250	13,357	12,063
Class II nuclear facilities	382	3,402	3,784	3,602	4,248	3,413
Dosimetry services	54	4	58	82	1,593	1,293
<b>Total formula fees</b>	<b>5,076</b>	<b>7,936</b>	<b>13,012</b>	<b>12,934</b>	<b>19,198</b>	<b>16,769</b>
Transport licences and transport package certificates	225	–	225	203	789	708
Radiation device and prescribed equipment certificates	92	9	101	139	565	828
Exposure device operator certificates	161	–	161	138	301	78
Licences to package or transport under special arrangement	14	–	14	26	13	25
<b>Total fixed fees</b>	<b>492</b>	<b>9</b>	<b>501</b>	<b>506</b>	<b>1,668</b>	<b>1,639</b>
<b>TOTAL LICENSING, CERTIFICATION AND COMPLIANCE</b>	<b>105,036</b>	<b>12,013</b>	<b>117,049</b>	<b>114,041</b>	<b>124,419</b>	<b>119,137</b>
<b>NON-LICENSING AND NON-CERTIFICATION</b>						
Co-operative undertakings	45	–	45	15	12,859	12,816
Stakeholder relations	–	–	–	–	11,929	12,953
Regulatory framework	–	–	–	–	1,953	749
Canadian grants and contributions	–	–	–	–	984	726
Special projects, other revenue and related expenses	4,713	–	4,713	2,933	3,880	2,389
<b>TOTAL NON-LICENSING AND NON-CERTIFICATION</b>	<b>4,758</b>	<b>–</b>	<b>4,758</b>	<b>2,948</b>	<b>31,605</b>	<b>29,633</b>
<b>TOTAL</b>	<b>109,794</b>	<b>12,013</b>	<b>121,807</b>	<b>116,989</b>	<b>156,024</b>	<b>148,770</b>

## 11. RELATED PARTY TRANSACTIONS

The CNSC is related, as a result of common ownership to all government departments, agencies, and Crown corporations. The CNSC enters into transactions with these entities in the normal course of business and on normal trade terms.

### a) Services provided without charge by other government departments

During the year, the CNSC received services without charge from certain common service organizations. These services provided without charge have been recorded in the CNSC's Statement of Operations and Net Financial Position as follows:

(in thousands of dollars)	2013	2012
Accommodation provided by Public Works and Government Services	5,680	5,660
Contributions for employer's share of employee benefits provided by the Treasury Board Secretariat	7,986	7,417
Audit services provided by the Office of the Auditor General of Canada	112	117
Other	52	55
Salary and associated costs of legal services provided by Justice Canada	2	2
<b>Total</b>	<b>13,832</b>	<b>13,251</b>

The government has centralized some of its administrative activities for efficiency and cost-effectiveness purposes and the economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations, such that one department performs services for all other departments and agencies, without charge.

### (b) Other transactions with related parties

(in thousands of dollars)	2013	2012
Accounts receivable – Other government departments and agencies	233	13
Accounts payable – Other government departments, agencies and crown corporations	11,040	12,428
Expenses – Other government departments and agencies	24,195	22,334
Revenues – Other government departments and agencies	9,915	12,358

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

## 12. TRANSFERS FROM/TO OTHER GOVERNMENT DEPARTMENTS

On November 15, 2011, the CNSC transferred responsibility for information technology (IT) infrastructure to Shared Services Canada (SSC) in accordance with the Order in Council of August 4, 2011, including stewardship responsibilities for the assets and liabilities related to IT infrastructure. During the year, the CNSC transferred the remaining assets of \$202,911 to SSC and paid liabilities on behalf of SSC of \$442,627. In addition, the CNSC transferred an asset to another department in the amount of \$25,994 and received an asset in the amount of \$22,665.

## 13. CONTRACTUAL OBLIGATIONS

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

(in thousands of dollars)	2014	2015	2016	2017	2018 and thereafter	Total
Acquisitions of goods and services	6,963	565	168	2	–	7,698
Operating leases	37	17	7	1	–	62
<b>Total</b>	<b>7,000</b>	<b>582</b>	<b>175</b>	<b>3</b>	<b>–</b>	<b>7,760</b>

## 14. CONTINGENT LIABILITIES

Claims have been made against the CNSC in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. As at March 31, 2013, contingent liabilities for claims and pending litigation has been estimated at \$57,640,000 (2011–12 – \$57,640,000). Management has determined that an unfavourable outcome is unlikely.

## 15. NUCLEAR LIABILITY REINSURANCE ACCOUNT

Under the *Nuclear Liability Act* (NLA), operators of designated nuclear installations are required to possess basic and supplementary insurance of \$75,000,000 per installation for specified liabilities. The federal government has designated the Nuclear Insurance Association of Canada (NIAC) as the sole provider of third-party liability insurance and property insurance for the nuclear industry in Canada. The NIAC provides insurance to nuclear operators under a standard policy.

The policy consists of two types of coverage: Coverage A and Coverage B. Coverage A includes only those risks that are accepted by the insurer; that is, bodily injury and property damage. Coverage B risks include personal injury that is not bodily, for example, psychological injury, damage arising from normal emissions, and damage due to acts of terrorism.

The NIAC receives premiums from operators for both coverages; however, premiums for Coverage B risks are remitted to the federal government, which reinsures these risks under its reinsurance agreement with the NIAC. Through the reinsurance agreement, the federal government assumes the liability associated with the difference between the basic insurance coverage provided by the NIAC and the full \$75,000,000 of liability imposed by the NLA, as well as for events listed under coverage B. As of March 31, 2013, the total supplementary insurance coverage is \$510,000,000 (2011–12 – \$584,500,000).

All premiums paid by the operators of nuclear installations for the supplementary insurance coverage are credited to a nuclear liability reinsurance account (account) in the Consolidated Revenue Fund (CRF). Premiums received in respect of Coverage B amount to \$343,284 (2011–12 – \$285,728). Claims against the supplementary insurance coverage are payable out of the CRF and charged to the account. There have been no claims against—or payments out of—the account since its creation.

As explained in note 2n, the CNSC administers the nuclear liability reinsurance account on behalf of the Government of Canada through a specified purpose account consolidated in the *Public Accounts of Canada*. As at March 31, 2013, the closing balance of the account is \$3,154,038 (2011–12 – \$2,809,254).

## 16. LICENCES PROVIDED FREE OF CHARGE BY THE CNSC

The CNSC provides licences free of charge to educational institutions, not-for-profit research institutions wholly owned by educational institutions, publicly funded health care institutions, not-for-profit emergency response organizations, and federal government departments and agencies. The total value of these licences amounted to \$12,012,766 (2011–12 – \$12,295,551). The foregone revenue is not included in the Statement of Operations and Net Financial Position.

## 17. COMPARATIVE INFORMATION

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

# Summary of the Assessment of Effectiveness of the Systems of Internal Control Over Financial Reporting and the Canadian Nuclear Safety Commission's Action Plan for the Fiscal Year 2012–13

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

### **NOTE TO THE READER**

The Treasury Board *Policy on Internal Control* requires that departments and agencies demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments and agencies are expected to do the following:

- conduct annual assessments of their system of ICFR
- establish action plan(s) to address any gaps
- attach a summary of their assessment results and action plan to their *Statement of Management Responsibility*

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

- transactions are appropriately authorized
- financial records are properly maintained
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement
- applicable laws, regulations and policies are complied with

It is important to note that the system of ICFR is not designed to eliminate all risks. Rather, the system aims to mitigate risks to a reasonable level with controls that are balanced with and proportionate to these risks.

The maintenance of an effective system of ICFR is an ongoing process designed to identify key risks, to assess and adjust the effectiveness of associated key controls, and to monitor the controls' performance in support of continuous improvement. As a result, departmental assessments of the effectiveness of systems of ICFR will vary in scope, pace and status. These variations will occur based on the risks and unique circumstances of each organization in question.

### **1. INTRODUCTION**

This document is annexed to the *Statement of Management Responsibility Including Internal Control Over Financial Reporting* of the Canadian Nuclear Safety Commission (CNSC), for the fiscal-year 2012–13. This document was published for the first time for the year ended March 31, 2011, as required by the Treasury Board *Policy on Internal Control*, and provides summary information on the CNSC's measures to maintain an effective system of ICFR. It provides summary information on the planning and scoping conducted at the CNSC, as well as information on the subsequent testing of the system. The report also includes progress, results and related action plans along with some financial highlights pertinent to understanding the CNSC's unique control environment.



## 1.1 Authority, mandate and program activities

The Canadian Nuclear Safety Commission (CNSC) was established on May 31, 2000, with the coming into effect of the *Nuclear Safety and Control Act* (NSCA). It replaced the Atomic Energy Control Board (AECB) established in 1946 by the *Atomic Energy Control Act*. The CNSC is a departmental corporation listed in Schedule II of the *Financial Administration Act*, and reports to Parliament through the Minister of Natural Resources.

The NSCA provides comprehensive powers to the CNSC to establish and enforce national standards for nuclear energy in the areas of health, safety and environment. It establishes a basis for implementing Canadian policy and fulfilling Canada's obligations with respect to the non-proliferation of nuclear weapons. The CNSC is empowered to require financial guarantees, order remedial action in hazardous situations and compel responsible parties to bear the costs of decontamination and other remedial measures.

The CNSC objectives are to:

- regulate the development, production and use of nuclear energy and the production, possession and use of nuclear substances, prescribed equipment and information in order to:
  - prevent unreasonable risk to the environment, to the health and safety of persons and to national security
  - achieve conformity with measures of control and international obligations to which Canada has agreed
- disseminate scientific, technical and regulatory information concerning:
  - its activities
  - the development, production, possession, transport and use of nuclear energy and substances
  - the effects of nuclear energy and substances use on the environment and on the health and safety of persons

The *Nuclear Liability Act* is also administered by the CNSC, which designates nuclear installations, prescribes basic insurance to be carried by the operators of such nuclear installations, and administers supplementary insurance coverage premiums for these installations.

Pursuant to the *Canadian Nuclear Safety Commission Cost Recovery Fees Regulations* (2003), the CNSC recovers costs related to its regulatory activities from users licensed under the NSCA. These costs include the technical assessment of licence applications, compliance inspections and the development of regulatory documents.

## 1.2 Financial highlights

The CNSC's audited financial statements for the fiscal year 2012–13 can be found on the CNSC Web site<sup>1</sup>. Information can also be found in the *Public Accounts of Canada*<sup>2</sup>.

- Total expenses were \$156.0 million. The majority of these expenses were comprised of salaries and benefits (73% or \$113.9 million with 840 employees) followed by professional and special services (11% or \$17.5 million).
- Total revenues of \$109.8 million, leaving a net cost of operations of \$46.2 million funded through a parliament appropriation
- Total assets and liabilities were \$39.7 million and \$50.4 million, respectively. Assets primarily consisted of funds due from the consolidated revenue fund (\$22.4 million), accounts receivable (\$2.8 million) and tangible capital assets (\$14.1 million). Accounts payable and accrued liabilities (\$22.4 million) and accrued employee benefits (\$18.7 million) comprise the majority (81.5%) of the liabilities.
- The finance function of the CNSC is centralized at the headquarters offices in Ottawa.
- The CNSC uses FreeBalance for its financial accounting system and a Cognos-based enterprise planning and business intelligence system for costing and financial management and reporting. These interface with the CNSC's Licensing Operations User Interface System to support the CNSC's revenue management.

## 1.3 Audited financial statements

The Auditor General of Canada (AG) has issued an unqualified audit opinion of the CNSC's financial statements, each year, since the CNSC was created in 2000. At the CNSC's specific request, the AG also audits the organization's compliance with the *Canadian Nuclear Safety Commission Cost Recovery Fees Regulations* (CRFR) and has issued an unqualified opinion in this regard since the establishment of the CRFR in 2003.

<sup>1</sup> See [nuclearsafety.gc.ca/eng/readingroom/reports/annual/index.cfm](http://nuclearsafety.gc.ca/eng/readingroom/reports/annual/index.cfm)

<sup>2</sup> To be published in the fall of 2013 at <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/73-eng.html>

## 1.4 Service arrangements relevant to financial statements

The CNSC relies on other organizations and their internal controls for the processing of certain transactions and for information used to calculate certain liabilities that are recorded in its financial statements:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and expenses as well as the procurement of certain goods and services.
- The Treasury Board Secretariat provides the CNSC with information used to calculate various accruals and allowances, such as the accrued severance liability.
- Shared Services Canada is responsible for managing and maintaining the CNSC's information technology infrastructure and security.

## 1.5 Material changes in fiscal year 2012–13

The CNSC report no significant changes, effected during the 2012-13 period, which would impact the system of internal control.

## 2. THE CNSC'S CONTROL ENVIRONMENT RELEVANT TO ICFR

The CNSC's focus is to ensure risks are well-managed through a responsive and risk-based control environment that enables continuous improvement and innovation. It also recognizes it is important that senior management set a tone that will ensure staff at all levels understand their roles in maintaining effective systems of ICFR, and that they are well-equipped to carry out their duties.

### 2.1 Key positions, roles and responsibilities

The CNSC has the following key positions and committees that are responsible for maintaining and reviewing the effectiveness of its system of ICFR:

**President** – The CNSC's President, as Accounting Officer, assumes overall responsibility and leadership for measures taken to maintain an effective system of internal control. The President also chairs the Management Committee.

**Chief Financial Officer (CFO)** – The CNSC's CFO reports directly to the President and provides leadership for the coordination, coherence and focus of the design, implementation, assessment and maintenance of an effective and integrated system of ICFR.

**Vice-Presidents** – The CNSC's Vice-Presidents in charge of program delivery are responsible for maintaining and reviewing the effectiveness of the system of ICFR falling within their operational areas.

**Chief Audit Executive (CAE)** – The CNSC's CAE reports functionally to the President and provides assurance through periodic risk-based internal audits, which are instrumental to the maintenance of an effective system of ICFR.

**Departmental Audit Committee (DAC)** – The DAC is an advisory committee comprised of three external members and two internal members. The DAC ensures that the President has independent, objective advice, guidance and assurance on the adequacy of the CNSC's control and accountability processes. As such, it reviews the CNSC's corporate risk profile and its system of internal control, including the annual assessment and action plans relating to the system of ICFR.

**Management Committee (MC)** – As the CNSC's central decision-making body, the MC reviews, approves and monitors the CNSC's system of internal control, including the assessment and remedial actions relating to the system of ICFR.

### 2.2 Key measures in place at the CNSC

The CNSC's control environment includes a set of measures to equip its staff to manage risks well, by raising awareness, providing appropriate knowledge and tools and developing skills. Key measures include:

- an Office of Audit and Ethics, which manages values and ethics programs, internal disclosure and the *Public Servants Disclosure Protection Act*, and conflict-of-interest and post-employment policies
- delivery of a Management Fundamentals training program, including security, information management, information technology, human resource management and financial delegation roles and responsibilities

- the operation of the Harmonized Plan for Improvement Initiatives, a corporate improvement plan that integrates, aligns and monitors all cross-functional CNSC improvement initiatives in a single, prioritized plan
- a CFO function that reports directly to the President and is accountable for:
  - significant and ongoing investment in functional financial staff training
  - maintenance of a centre of expertise on ICFR
  - financial policies tailored to the CNSC’s business and control environment
  - regular update of delegated financial authorities matrix
  - operation of a quality assurance compliance monitoring framework;
  - documentation of all key business processes to support the management and oversight of ICFRs

### 3. ASSESSMENT OF THE CNSC SYSTEM OF ICFR

#### 3.1 Assessment objective and scope

The assessment’s objective is to ensure that the systems of ICFR are effective in preventing material misstatements or errors in the CNSC’s financial statements. In this context, an error is considered to be material if its omission or misstatement could have an impact on the decisions of the financial statements’ users.

The CNSC conducts a self-assessment to provide assurance on internal control over financial reporting. The annual assessment is intended to be led and administered by the CFO and supported by the senior management team.

To determine the scope of the undertaking, the CNSC undertook a scoping and planning exercise to identify business process controls, entity-level controls, and general computer controls associated with key risks to financial reporting. The CNSC considered both quantitative and qualitative risk factors during the scoping and planning. These included, but were not limited to the following: materiality; transactions requiring significant judgment or estimations (e.g., contingent liabilities); complexity of operations; susceptibility to fraud; Auditor General recommendations concerning the financial statements or related matters; and internal audit findings.

Business processes are defined as the specific processes that support the treatment of financial transactions. The CNSC identified the following six business processes for assessment, based on risks: payroll, purchase to pay, revenues, capital assets, grants and contributions, and year-end financial close and statement preparation.

Entity-level controls are defined as the overarching controls of the organization that set the “tone from the top”. The following four entity-level control areas were identified: governance and accountability, risk management, information and communication, and monitoring.

General computer controls, also known as information technology general controls, are defined as controls over the financial management and reporting systems and information technology (IT) infrastructure used across the organization. The CNSC is responsible for assessing the effectiveness of all key IT general controls for the systems that it fully manages. Where the CNSC acquires system-based services from other government departments (e.g., regional pay system, standard pay system, or IT infrastructure), self-assessment will be limited to components of the systems controlled by the CNSC.

These control areas are the baseline by which the CNSC developed its self-assessment plan. It reviews and updates this plan annually to reflect changes in risks and findings.

#### 3.2 Assessment elements and methodology

Be it to support its year-end financial statement audit or the requirements of the *Policy on Internal Control*, the CNSC’s ICFR aims to provide reasonable assurance that:

- transactions are appropriately authorized
- financial records are properly maintained
- assets are safeguarded
- applicable laws, regulations and policies are complied with

This assurance will be achieved through the assessment of the **design and operating effectiveness** of the system of ICFR, the creation of a **management action plan** to address significant gaps in design and operating effectiveness, and the **ongoing monitoring and continuous improvement** of all key elements of this system.

**Design effectiveness** means that key control points exist, are known, documented, and are aligned with the risks (i.e., controls are balanced with and proportionate to the risks they aim to mitigate). The assessment includes the mapping of key business processes and IT systems,

identification of key risks and internal controls implemented to mitigate these risks, and a walk-through of the process or systems to confirm their existence.

**Operating effectiveness** means that the application of key controls is tested over a defined period, normally the fiscal year, and that they are working as intended. The assessment activities include performing a sample test of transactions to determine whether the documented procedures and internal control measures are being consistently followed and applied.

**Management action plan** – A report will be issued internally, reporting on any deficiencies identified during the tests of design and operating effectiveness. The process owner will develop a management action plan, which will be included in the report, to remediate any identified gaps in a timely manner.

**Ongoing monitoring and continuous improvement** – Once any gaps have been remediated, the design and operating effectiveness of the key controls will be reassessed, in order to ensure the actions taken have addressed the gaps. Thereafter, annual monitoring activities will ensure that the control design continues to address key risks and that operating effectiveness is maintained.

## 4. CNSC'S ASSESSMENT RESULTS

### 4.1 Design Effectiveness of Key Controls

The design effectiveness assessment of all key internal controls was completed in 2012–13. Following this assessment, the focus for subsequent years (including the 2013–14 fiscal year) is to (1) perform any necessary remediation of prior year results, (see section 5.1 for additional information) and (2) keep the documentation of the design assessment current by updating the documentation as necessary for any changes to the identified risks or key controls.

The assessment of key controls design effectiveness completed over the course of 2012–13 revealed no significant internal control gaps.

### 4.2 Operating Effectiveness of Key Controls

In 2012–13, CNSC completed the operating effectiveness assessment of its key business processes. The assessment included: determining the nature, extent and timing of the key control operation, developing testing criteria, defining and obtaining test population data, executing the operational testing, and reporting on findings.

The results of the operating effectiveness testing of CNSC's key business processes demonstrated that CNSC's internal controls are operating consistently, as designed.

During the operational effectiveness testing, a limited number of observations related to key controls were noted and a remediation strategy was developed. In the area of key business processes, it was observed that CNSC should:

- strengthen the documentation substantiating the reception of goods and services
- strengthen the high value, high risk contract requisition approval process

## 5. CNSC'S ACTION PLAN

### 5.1 Progress as at March 31, 2013

During 2012–13 CNSC continued to make progress in assessing and improving its internal controls. The CNSC implemented its commitments as follows:

- Systems user and administrator access management process is now standardized and documented.
- Implementation of approval procedures for IT systems and documentation changes.
- Controls on ceiling value contracts have been strengthened.

### 5.2 Action Plan for the next Fiscal Year and Future Years

The CNSC intends to complete its self-assessment plan and engage the already completed items of its system of internal control in the monitoring and continuous improvement phase, in accordance with the following table:

	2013–14	2014–15
<b>Business processes</b>		
Payroll		
Assessment and remediation	M	
Purchase to Pay		
Assessment and remediation		M
Revenues		
Assessment and remediation	M	
Capital assets		
Assessment and remediation	C	
Grants and contributions		
Assessment and remediation	C	
Year-end financial close and statement preparation		
Assessment and remediation	C	
<b>Entity-level controls</b>		
Governance and accountability		
Assessment and remediation	C	
Risk management		
Assessment and remediation	C	
Information and communication		
Assessment and remediation	C	
Monitoring		
Assessment and remediation	C	
<b>Information technology general controls</b>		
Assessment and remediation		M
C = Completed in that period	M = Monitoring and continuous improvement	