

INDIAN AND NORTHERN AFFAIRS CANADA

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, 2010, and all information contained in these statements rests with the management of Indian and Northern Affairs Canada (INAC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

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 INAC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in INAC'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 designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

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

An assessment for the year ended March 31, 2010 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of the Department's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Department's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister.

The financial statements of INAC have not been audited.

Original signed by Michael Wernick

Original signed by Susan MacGowan

Michael Wernick
Deputy Minister

Susan MacGowan, CMA
Chief Financial Officer

Gatineau, Canada
August 26, 2010

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Operations (*Unaudited*)

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

	2010	2009
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Expenses (Note 4)		
People	3,349,322	3,221,762
Government	3,227,451	1,695,220
Economy	1,465,953	1,284,103
North	567,433	388,055
Internal Services	325,817	620,122
Land	286,659	130,725
Office of the Federal Interlocutor	41,325	40,669
Total Expenses	9,263,960	7,380,656
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Revenues (Note 5)		
Government	6,873	9,000
Economy	1,786	2,026
North	195,586	272,585
Internal Services	321	1,370
Land	8	-
Total Revenues	204,575	284,981
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Net Cost of Operations	9,059,385	7,095,675
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The accompanying notes form an integral part of these financial statements.

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Financial Position (Unaudited)

As at March 31

(in thousands of dollars)

	2010	2009
Assets		
Financial assets		
Accounts receivable and advances (Note 6)	127,808	62,138
Interest receivable (Note 7)	3,483	6,939
Loans receivable (Note 8)	746,730	789,487
Total financial assets	878,021	858,564
Non-financial assets		
Prepaid expenses	2,154	2,172
Land held for future claims settlements (Note 9)	26,157	25,826
Tangible capital assets (Note 10)	49,617	44,870
Total non-financial assets	77,928	72,868
TOTAL	955,949	931,432
Liabilities and Equity		
Liabilities		
Accounts payable and accrued liabilities	1,131,568	987,948
Vacation pay and compensatory leave	18,166	17,254
Other liabilities (Note 11)	59,584	53,949
Trust accounts (Note 12)	1,080,862	1,126,747
Settled claims (Note 13)	538,411	607,931
Allowance for claims and litigation (Note 14)	12,050,572	10,335,936
Environmental liabilities (Note 14)	1,901,998	1,571,348
Allowance for loan guarantees (Note 14)	1,660	1,800
Employee severance benefits (Note 15)	74,320	78,549
Total liabilities	16,857,141	14,781,462
Equity of Canada	(15,901,192)	(13,850,030)
TOTAL	955,949	931,432

Contingent liabilities (Note 14)

Contractual obligations (Note 16)

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

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Equity of Canada *(Unaudited)*

As at March 31

(in thousands of dollars)

	2010	2009
Equity of Canada, beginning of year	(13,850,030)	(12,267,393)
Net cost of operations	(9,059,385)	(7,095,675)
Current year appropriations used (Note 3)	7,380,724	6,938,947
Revenue not available for spending	(204,575)	(284,981)
Refunds of prior year's expenses	(129,130)	(55,446)
Change in net position in the Consolidated Revenue Fund (Note 3c)	(138,299)	(178,306)
Services provided without charge from other government departments (Note 17)	99,503	85,698
Transfer of Indian Residential Schools Resolution Canada	-	(992,874)
Equity of Canada, end of year	(15,901,192)	(13,850,030)

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

INDIAN AND NORTHERN AFFAIRS CANADA

Statement of Cash Flow (Unaudited)

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

	2010	2009
Operating activities		
Net cost of operations	9,059,385	7,095,675
Non-cash items:		
Services provided without charge from other departments	(99,503)	(85,698)
Amortization of tangible capital assets	(10,440)	(8,380)
Gain (loss) on disposal of tangible capital assets	10	2
Adjustments to tangible capital assets	-	1,454
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	65,670	(2,790)
Decrease in interest receivable	(3,456)	(10,819)
Decrease (increase) in loans receivable	(42,757)	26,678
Decrease in prepaid expenses	(18)	-
Increase in land held for future claims settlements	331	813
Increase in liabilities	(2,075,679)	(1,604,449)
Cash used by operating activities	6,893,543	5,412,486
Capital investment activities		
Acquisitions of tangible capital assets	15,228	14,925
Proceeds from disposal of tangible capital assets	(51)	(71)
Cash used by capital investment activities	15,177	14,854
Financing Activities		
Cash used by financing activities	-	-
Net cash provided by Government of Canada	6,908,720	5,427,340

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

Notes to the Financial Statements (*Unaudited*)

INDIAN AND NORTHERN AFFAIRS CANADA

Notes to the Financial Statements (*Unaudited*)

1. Authority and objectives

Indian and Northern Affairs Canada (INAC) was established by the *Government Organization Act, 1966* and has been continued in its current form by the *Department of Indian Affairs and Northern Development Act (R.S., 1985, c. I-6)*. Effective June 1, 2008, pursuant to Order-in-Council P.C. 2008-805, Indian Residential Schools Resolution Canada (IRSRC) was amalgamated and combined with INAC under the Minister of INAC. INAC is named as a department in Schedule I of the *Financial Administration Act*.

INAC's vision is a future in which First Nations, Inuit, Métis and northern communities are healthy, safe, self-sufficient and prosperous - a Canada where people make their own decisions, manage their own affairs and make strong contributions to the country as a whole.

INAC is one of the federal government departments responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Métis, and for fulfilling the federal government's constitutional responsibilities in the North. The broad mandate of the Department is derived largely from the *Department of Indian Affairs and Northern Development Act, 1970*, the *Indian Act* and its amendments, as well as numerous other statutes, negotiated agreements and relevant legal decisions.

Consistent with its vision and to achieve its mandate, INAC has structured its operations along seven strategic outcomes as follows:

a) *People* - Activities within this strategic outcome support the Department's mandate with respect to provincial-type services on reserves south of the 60th parallel, as well as fulfilling other departmental statutory and treaty obligations to individuals. Taken together, these activities create a range of essential services throughout an individual's life such as:

- The registration of eligible persons as Indians and estate administration;
- Education; and
- Social services.

b) *Government* - Under this strategic outcome, activities support capacity building for governance and institutions, cooperative relationships, and claims settlements as the foundation for self-reliant First Nations, Inuit and Northerners. These activities promote:

- Stable, effective First Nations and Inuit governments;
- Sustainable intergovernmental relationships recognized by all parties; and
- Legal certainty over ownership and use of lands and resources.

Notes to the Financial Statements (*Unaudited*)

c) Economy - This strategic outcome concentrates on establishing a supportive investment/business climate to enable First Nations, Inuit and Métis people, their communities and their businesses to seize economic opportunities. It also focuses on building the economic and community foundations necessary to increase Aboriginal participation in the economy. These activities promote:

- Sustainable business development;
- Investment leading to jobs in communities; and
- Management of infrastructure facilities.

d) North- This strategic outcome concentrates on supporting the people and communities of the North in being self-reliant, healthy, skilled and prosperous. Through this strategic outcome INAC also fulfills the federal government's constitutionally mandated responsibilities in Canada's three northern territories. These activities are required to:

- Strengthen Northern governance and the growth of the Northern economy;
- Contribute to healthy Northern communities; and
- Support the sustainable development of Northern land and resources.

e) Land - Activities within this strategic outcome promote efficient land management practices that address the Crown's obligation to protect, conserve, and manage lands, resources and the environment in a manner consistent with the principles of sustainable development and First Nations' aspirations for greater control and decision making over their lands, resources, and environment. These activities are required to:

- Develop the underlying infrastructure and capacity for First Nations governance;
- Create opportunities for more direct responsibility and control by First Nations over land, resources and the environment; and
- Realize economic development, improved socio-economic and environmental conditions, and sound First Nations governance over land, resources and the environment.

f) Office of the Federal Interlocutor - Under this strategic outcome, activities are designed to improve socio-economic conditions for Métis, Non-Status Indians and urban Aboriginal people through strengthened relationships with Métis and Non-Status Indian groups and organizations, urban Aboriginal Canadians, and provincial governments and municipalities. These activities support:

- Capacity development within Métis and Non-Status Indian organizations;
- Increased employment for urban Aboriginal people; and
- An increased knowledge base relating to Métis Aboriginal rights.

Notes to the Financial Statements (*Unaudited*)

g) Internal Services - Under this strategic outcome, activities are designed to ensure an effective, responsibly operated department which is positioned to achieve its strategic outcomes. Internal Services include only those activities and resources that apply to an entire organization and not to activities and resources that are provided to a select number of programs. These activities include:

- Governance and management support;
- Resource management services; and
- Asset management services.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

a) Parliamentary appropriations - INAC is primarily financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to INAC do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

b) Net cash provided by Government - INAC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by INAC is deposited to the CRF and all cash disbursements are paid from the CRF. Net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

c) Change in net position in the Consolidated Revenue Fund - The difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-responsible revenue recorded by the Department. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

d) Revenues - Revenues from regulatory fees are recognized in the accounts based on the services provided in the year. Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

e) Expenses - Expenses are recorded on the accrual basis:

- Grants are recognized in the year in which conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized 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;

Notes to the Financial Statements (*Unaudited*)

- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement;
- Vacation pay and compensatory leave are expensed in the year that the entitlement occurs; and
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.

f) Employee future benefits

- Pension benefits - Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. INAC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the plan.
- Severance benefits - Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. 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.

g) Accounts and loans receivable

Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

Loans receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

Interest on loans receivable is calculated in accordance with the terms and conditions of each individual program. Interest is not accrued on loans approved for write-off or forgiveness.

h) Provision for losses on accounts and loans receivable

Accounts receivable

The amount of the allowance is determined based on an assessment of each account. The collectibility of each account is reviewed by regional accounting offices on a semi-annual basis using a standard set of criteria to assess default risk.

Direct loans and defaulted guaranteed loans

The amount of the allowance is determined based on an assessment of each loan. The collectibility of each loan is reviewed by program managers on an annual basis using a standard set of criteria to assess default risk.

Notes to the Financial Statements (*Unaudited*)

Loan guarantees (contingent)

An allowance for loan guarantees is recorded for potential losses on loan guarantees when it is likely that a payment will be made in the future to honour a guarantee and when the amount of the loss can be reasonably estimated. The amount of the allowance is determined by taking into consideration the weighted average of the contingent liability and the historical percentage of default. The allowance is reviewed on at least an annual basis with any changes in the allowance being charged or credited to current year's expenses.

i) Contingent liabilities - A contingent liability is a potential liability which may become an actual liability 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 an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

j) Environmental liabilities - Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated, to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

k) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost 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, or assets located on Indian Reserves.

Capital assets which are held for future contribution to First Nations are reported as land held for future claims settlements.

Notes to the Financial Statements (*Unaudited*)

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

<u>Asset Class</u>	<u>Amortization Period</u>
Buildings -	
Residential mobile	10 years
Administrative, institutional, recreational and residential	40 years
Works and infrastructure	30 years
Machinery and equipment -	
Communication equipment	5 years
Lab, scientific and testing equipment	10 years
Construction, excavating and clearing equipment	15 years
Generating equipment	20 years
Informatics hardware and software	3 years
Ships and boats	10 years
Motor vehicles -	
Passenger vehicles and light trucks less than 1 ton	5 years
Heavy trucks greater than 1 ton	10 years
Other vehicles	5 years
Leasehold improvements	Lesser of useful life or term of lease
Assets under construction	Once in service, in accordance with asset type

1) Measurement uncertainty - The preparation of financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the allowance for claims and litigation, environmental liabilities, contingent liabilities, the liability for employee severance benefits, and the useful life of tangible capital assets. Actual results could differ significantly from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Notes to the Financial Statements (*Unaudited*)

3. Parliamentary appropriations

INAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years.

Accordingly, INAC 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 appropriations used

<i>(in thousands of dollars)</i>	<u>2010</u>	<u>2009</u>
Net cost of operations	9,059,385	7,095,675
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Expenses for claims and litigation	(1,714,636)	(261,225)
Environmental liabilities	(330,650)	(74,211)
Revenue not available for spending	204,575	284,981
Refunds of prior years expenses	129,130	43,211
Services provided without charge	(99,503)	(85,698)
Settled claims	69,520	(61,397)
Amortization of tangible capital assets	(10,440)	(8,380)
Employee severance benefits	4,229	(20,047)
Vacation pay and compensatory leave	(912)	(1,835)
Gain (loss) on disposal of tangible capital assets	10	2
Other	<u>54,475</u>	<u>12,131</u>
	<u>7,365,183</u>	<u>6,923,207</u>
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisition of tangible capital assets	15,228	14,925
Prepaid expenses	(18)	-
Land held for future claims settlements	<u>331</u>	<u>815</u>
Current year appropriations used	<u>7,380,724</u>	<u>6,938,947</u>

Notes to the Financial Statements (*Unaudited*)

b) Appropriations provided and used

	Appropriations Provided	
	<u>2010</u>	<u>2009</u>
	<i>(in thousands of dollars)</i>	
Vote 1 - Operating expenditures	1,248,161	1,189,276
Vote 5 - Capital expenditures	1,159	17,754
Vote 10 - Grants and Contributions	6,133,098	5,733,595
Vote 15 - Payment to Canada Post Corporation	66,200	56,100
Vote 20 - Office of the Federal Interlocutor - Operating	9,386	9,672
Vote 25 - Office of the Federal Interlocutor - Contributions	32,387	30,344
Statutory amounts	<u>286,555</u>	<u>194,216</u>
	7,776,946	7,230,957
Less:		
Appropriations available for future years	(31,921)	(31,823)
Lapsed appropriations	<u>(364,301)</u>	<u>(260,187)</u>
	(396,222)	(292,010)
Current year appropriations used	<u>7,380,724</u>	<u>6,938,947</u>

Notes to the Financial Statements (*Unaudited*)

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

	<u>2010</u> <i>(in thousands of dollars)</i>	<u>2009</u>
Net cash provided by Government	6,908,720	5,427,340
Revenue not available for spending	204,575	284,981
Refund of previous year's expenses	<u>129,130</u>	<u>55,446</u>
Sub-total	333,705	340,427
	<i>7,242,425</i>	<i>5,767,767</i>
Change in net position in the Consolidated Revenue Fund:		
Variation in accounts receivable and advances	(65,670)	2,790
Variation in interest receivable	3,456	10,819
Variation in loans	42,757	(26,678)
Variation in accounts payable and accrued liabilities	143,620	132,340
Variation in trust accounts	(45,885)	93,193
Other adjustments	<u>60,021</u>	<u>(34,158)</u>
	<i>138,299</i>	<i>178,306</i>
Transfer of Indian Residential Schools Resolution Canada	-	992,874
Current year appropriations used	<u>7,380,724</u>	<u>6,938,947</u>

Notes to the Financial Statements (*Unaudited*)

4. Expenses

The following table presents details of expenses by category:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of dollars)</i>	
Transfer payments - First Nations	5,042,928	4,929,682
Transfer payments - Provincial/Territorial governments and institutions	736,422	706,691
Transfer payments - Non-profit organizations	34,629	41,795
Transfer payments - Industry	17,296	34,922
Transfer payments - Other	<u>5,614</u>	<u>5,727</u>
<i>Total transfer payments</i>	<i>5,836,889</i>	<i>5,718,817</i>
Claims and litigation	1,630,926	261,226
Salaries and employee benefits	505,851	488,900
Professional and special services	367,479	335,049
Court awards and other settlements	364,293	316,507
Environmental liabilities	330,650	74,211
Northern parcel service	58,314	56,100
Travel and relocation	41,742	42,304
Accommodations	34,711	33,795
Machinery and equipment	17,986	15,603
Communications services	12,554	12,590
Rentals of buildings and machinery	11,598	11,443
Utilities, materials and supplies	8,467	8,327
Other expenses	<u>42,500</u>	<u>5,784</u>
<i>Total operating expenses</i>	<i>3,427,071</i>	<i>1,661,839</i>
Total	<u>9,263,960</u>	<u>7,380,656</u>

Notes to the Financial Statements (*Unaudited*)

5. Revenues

The following table presents details of revenues by category:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of dollars)</i>	
Resource royalties	112,612	140,166
Norman Wells project profits	74,244	125,435
Interest on loans	9,366	11,005
Miscellaneous	4,477	4,208
Leases and rentals	<u>3,876</u>	<u>4,167</u>
Total	<u>204,575</u>	<u>284,981</u>

Resource royalties

The most significant sources of resource royalty revenues are those earned pursuant to the *Northwest Territories and Nunavut Mining Regulations* (formerly the *Canada Mining Regulations*) and the *Frontier Lands Petroleum Royalty Regulations*.

The *Northwest Territories and Nunavut Mining Regulations* (the Mining Regulations) prescribe a profit-sharing formula upon which royalty revenues are based. INAC receives a percentage of the profits companies earn from the sale of minerals extracted from land leased by these companies pursuant to the Mining Regulations. The Mining Regulations prescribe that royalties are generally payable four months after the fiscal year-end of the company.

The *Frontier Lands Petroleum Royalty Regulations* (the Royalty Regulations) also prescribe a profit-sharing formula upon which royalty revenues are based. INAC receives a percentage of the profits companies earn from the sale of oil and gas extracted from the land, which the company has the right to use pursuant to a production licence issued under the authority of the *Canada Petroleum Resources Act*. The Royalty Regulations prescribe that royalties are generally payable on the last day of the month following the month of production.

Norman Wells project profits

This project is a source of revenues earned pursuant to a contract between INAC and Imperial Oil. This contract prescribes a profit-sharing formula and sets out a payment schedule, whereby payments are made annually to INAC no later than March 20.

Leases and rentals

The major source of lease and rental revenues is lease fees prescribed in the Mining Regulations. After a waiting period of 10 years, companies may lease land in the North for purposes of exploration and extraction of minerals. Leases are for a period of 21 years and are renewable. Lease fees are set out in the Mining Regulations and are payable annually on the anniversary date of the signing of the lease.

Notes to the Financial Statements (*Unaudited*)

6. Accounts receivable and advances

The following table presents details of accounts receivable and advances:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of dollars)</i>	
Receivables from other Federal Government departments and agencies	24,675	29,856
Receivables from external parties	117,202	51,962
Employee advances	<u>285</u>	<u>186</u>
	<i>142,162</i>	<i>82,004</i>
Less: allowance for doubtful accounts on external receivables	<u>(14,354)</u>	<u>(19,866)</u>
Total	<u><u>127,808</u></u>	<u><u>62,138</u></u>

7. Interest receivable

The following table provides details of accrued interest receivable on loans:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of dollars)</i>	
Direct loans	3,472	6,949
Defaulted guaranteed loans	<u>493</u>	<u>429</u>
	<i>3,965</i>	<i>7,378</i>
Less: allowance for doubtful accounts	<u>(482)</u>	<u>(439)</u>
Total	<u><u>3,483</u></u>	<u><u>6,939</u></u>

Notes to the Financial Statements (*Unaudited*)

8. Loans receivable

The following table presents details of loans receivable:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands of dollars)</i>	
Direct loans portfolio:		
Native claimants	454,332	436,205
First Nations in British Columbia	395,879	419,918
Other direct loans	<u>514</u>	<u>519</u>
	<u>850,725</u>	<u>856,642</u>
Add: capitalized interest	8,325	14,795
Less: allowance for doubtful accounts	<u>(118,394)</u>	<u>(103,935)</u>
Net recoverable value	<u>740,656</u>	<u>767,502</u>
Defaulted guaranteed loans portfolio:		
On-reserve housing guarantees	10,278	8,891
Aboriginal loan insurance	8,199	7,200
Indian economic development guarantees	3,165	3,176
Other defaulted guaranteed loans	<u>124</u>	<u>124</u>
	<u>21,766</u>	<u>19,391</u>
Add: capitalized interest	13,031	11,111
Less: allowance for doubtful accounts	<u>(28,723)</u>	<u>(8,517)</u>
Net recoverable value	<u>6,074</u>	<u>21,985</u>
Loans receivable, net recoverable value	<u>746,730</u>	<u>789,487</u>

Notes to the Financial Statements (*Unaudited*)

Direct loans portfolio

The objective of direct loans is to support active participation by First Nations and First Nations organizations and to promote a balanced exchange of ideas in negotiating the settlement of comprehensive land claims, specific claims, and treaties.

INAC's direct loans portfolio has two active programs in support of this objective.

Native claimants

These are loans made to Native claimants to defray the costs related to the research, development and negotiation of comprehensive land claims and specific claims.

The significant terms and conditions of loans to Native claimants are as follows:

- (a) loans made before an agreement-in-principle for the settlement of a claim is reached are non interest bearing;
- (b) loans made after the date on which an agreement-in-principle for the settlement of a claim has been reached, bear interest at a rate equal to the rate established by the Minister of Finance in respect of borrowings for equivalent terms by Crown corporations;
- (c) loans are due and payable, as to principal and interest, on the date on which the claim is settled, or on a date fixed in the loan agreement;
- (d) loans may be restructured, including forgiveness of a portion of the principal or interest in arrears, when the borrower cannot meet the term of the original loan agreement; and
- (e) INAC may seek security for loans when deemed appropriate.

When an agreement-in-principle is reached for the settlement of a claim, any accrued interest receivable is capitalized semi-annually as part of the principal amount owing on the loan. After a final agreement is reached any accrued interest receivable outstanding is capitalized annually as part of the principal amount owing on the loan.

The interest bearing and non-interest bearing portions of direct loans for Native claimants outstanding at March 31 are as follows:

<i>(in thousands of dollars)</i>	<u>2010</u>	<u>2009</u>
Interest bearing	112,818	125,981
Non-interest bearing	<u>341,514</u>	<u>310,224</u>
Total	<u>454,332</u>	<u>436,205</u>

First Nations in British Columbia

These are loans made to First Nations in British Columbia to support their participation in the British Columbia Treaty Commission and to defray the costs related to the research, development and negotiation of treaties.

Notes to the Financial Statements (*Unaudited*)

The significant terms and conditions of direct loans to First Nations in British Columbia are the same as those for loans to Native claimants, except as follows:

(a) loans made between April 1, 2004 and March 31, 2010, and after the date on which an agreement-in-principle for the settlement of a treaty has been reached, shall be interest free unless the loans become due and payable during this period.

The interest bearing and non interest bearing portions of direct loans for First Nations in British Columbia outstanding at March 31 are as follows:

<i>(in thousands of dollars)</i>	<u>2010</u>	<u>2009</u>
Interest bearing	9,173	54,545
Non-interest bearing	<u>386,706</u>	<u>365,373</u>
Total	<u>395,879</u>	<u>419,918</u>

Other direct loans

INAC also has various legacy programs that are no longer active, thus no new loans will be granted under these programs. These legacy programs will continue to operate under their existing arrangements until the land claims are settled, at which point the loans will become repayable and the respective programs closed.

All loans outstanding at year-end under the various legacy programs both for the current and prior year are interest bearing.

Defaulted guaranteed loans portfolio

The objective of loan guarantees is to encourage lending institutions to make loans for properties located on First Nations lands and to support access to credit markets for First Nations and First Nations organizations. Since properties located on First Nations lands cannot be used as collateral to secure the loans and lending institutions are prevented from foreclosing on these properties in the event of borrower default, as prescribed by the *Indian Act*, lending institutions can be exposed to greater business risk in issuing loans for properties located on First Nations lands.

As guarantor, loan guarantees issued under the various programs may become receivables of the Department when, at the request of a lending institution, INAC is required to honour these loan guarantees. As a result, INAC makes payment to the lending institution and establishes a receivable from the First Nation or First Nation organization.

Notes to the Financial Statements (*Unaudited*)

The various loan guarantee programs are described below:

On-reserve housing guarantee program

This program authorizes the Department to guarantee loans to individuals and Indian bands to assist in the purchase of housing on reserves because security restrictions in the *Indian Act* prevent the mortgage and seizure of property located on reserves. These loan guarantees enable status Indians residing on reserves, Band councils, or their delegated authorities, to secure housing loans without giving the lending institution rights to the property.

The significant terms and conditions of the On-reserve housing guarantee program are as follows:

Payments of principal and interest for loans issued under this program are amortized over a period of 25 years. The interest rates on the guaranteed loans are consistent with conventional mortgage interest rates offered by the major banks. On a semi-annual basis, any accrued interest receivable outstanding is capitalized as part of the principal amount owing on the loan.

To control the occurrence of defaulted loans in this program, the Department restricts the eligibility of recipients for further loans until such time as a recovery plan has been reached and has been in operation in accordance with its terms and conditions for a period of six months.

Aboriginal business loan insurance program

This program, originally established under the Department of Industry, provides loan insurance to financial institutions on behalf of loans issued to Aboriginal individuals, organizations, corporations or partnerships for the purpose of increasing commercial enterprise activity by Aboriginal Canadians.

Indian economic development guarantee program

This program authorizes the Department to guarantee loans for non-incorporated Indian businesses on a risk-sharing basis with commercial lenders because security restrictions in the *Indian Act* prevent the mortgage and seizure of property located on reserves. Guarantees are provided for various types of borrowers whose activities contribute to the economic development of Indians and enable them to develop long-term credit relationships with mainstream financial institutions.

The significant terms and conditions of the Indian economic development guarantee program are as follows:

Loans issued under this program cannot exceed a term of 15 years and the line of credit must be renewed every year. Interest rates on guaranteed loans are consistent with rates provided by lending institutions to commercial businesses, which are usually based on a spread from the prime lending rate. Accrued interest on loans issued under this program is never capitalized. Any security pledged for a guaranteed loan may not be released by the lending institution without the prior approval of the Minister of INAC.

Notes to the Financial Statements (*Unaudited*)

Other defaulted guaranteed loans

INAC also has a legacy program that is no longer active. This legacy program will continue to operate under its existing arrangements until the defaulted guaranteed loans are paid and the program closed.

9. Land held for future claims settlements

Land held for future claims settlements is segregated from other tangible capital assets as these assets are not acquired with the intention of being used on a continuous basis in government operations. Rather, these assets are properties acquired and held by INAC for the purpose of future settlements of Aboriginal land claims. Following the ratification of a negotiated agreement of a claim, these assets are transferred to the Aboriginal group.

Changes in this account are summarized in the following table:

<i>(in thousands of dollars)</i>	<u>2010</u>			<u>2009</u>
	<u>Opening balance</u>	<u>Acquisitions</u>	<u>Transfers</u>	<u>Closing balance</u>
Land held for future claims settlements	<u>25,826</u>	<u>337</u>	<u>(6)</u>	<u>26,157</u>
				<u>25,826</u>

Notes to the Financial Statements (*Unaudited*)

10. Tangible capital assets

(in thousands of dollars)

Capital asset class	<u>Cost</u>				<u>Accumulated amortization</u>				<u>Total</u>	
	<u>Opening balance</u>	<u>Acquisitions</u>	<u>Disposals/ Adjustments</u>	<u>Closing balance</u>	<u>Opening balance</u>	<u>Amortization</u>	<u>Disposals/ Adjustments</u>	<u>Closing balance</u>	2010 net book value	2009 net book value
Land	606	-	-	606	-	-	-	-	606	606
Buildings	28,600	666	-	29,266	12,511	717	-	13,228	16,038	16,089
Works and infrastructure	1,444	-	-	1,444	1,270	45	-	1,315	129	174
Machinery and equipment	7,537	569	(43)	8,063	4,494	491	(25)	4,960	3,103	3,043
Informatics hardware	35,833	2,737	(89)	38,481	30,769	2,427	(88)	33,108	5,373	5,064
Informatics software	22,511	9,058	755	32,324	5,941	6,221	-	12,162	20,162	16,570
Ships and boats	130	34	(17)	147	77	8	(13)	72	75	53
Motor vehicles	4,423	357	(272)	4,508	3,084	491	(254)	3,321	1,187	1,339
Other vehicles	382	52	-	434	279	40	-	319	115	103
Leasehold improvements	346	159	-	505	-	-	-	-	505	346
Assets under construction	<u>1,483</u>	<u>1,596</u>	<u>(755)</u>	<u>2,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,324</u>	<u>1,483</u>
Total	<u>103,295</u>	<u>15,228</u>	<u>(421)</u>	<u>118,102</u>	<u>58,425</u>	<u>10,440</u>	<u>(380)</u>	<u>68,485</u>	<u>49,617</u>	<u>44,870</u>

Amortization expense for the year ended March 31, 2010 is \$10,440 (\$8,380 in 2009).

Notes to the Financial Statements (*Unaudited*)

11. Other liabilities

	<u>2010</u> <i>(in thousands of dollars)</i>	<u>2009</u>
Guarantee deposits	875,106	895,075
Securities held in trust	(854,307)	(874,783)
Other specified purpose accounts	<u>38,785</u>	<u>33,657</u>
Total	<u>59,584</u>	<u>53,949</u>

Guarantee deposits & securities held in trust

In fulfilling its duties under various acts that govern the use of federal Crown land, including land use activities, water resources, and water rights, the Department may issue licences, permits, and other instruments to individuals and organizations that propose to undertake resource exploration and other types of development projects.

In accordance with the terms and conditions of the instrument, the Department may require security deposits to ensure the lands and waters are returned in a condition acceptable to the Department. These security or guarantee deposits can be in the form of cash or paper securities (usually letters of credit).

Cash amounts received are transferred to and held in the CRF, whereas paper securities are held by the Department and recorded in the contra-liability account securities held in trust.

Other specified purpose accounts

These include a number of Indian special accounts, the most significant of which is the Indian moneys suspense account. This account was established to hold moneys received for individual Indians and bands pending execution of the related lease, permit or licence, settlement of litigation, registration of the Indian or identification of the recipient. These moneys are then disbursed to an Indian, credited to an Indian Band Fund or Individual Trust Fund account, or returned to the payer, as appropriate.

12. Trust accounts

In accordance with the *Indian Act*, INAC has responsibility to administer Indian moneys of bands and certain individual Indians, including minors, mentally incompetent individuals and deceased Indians.

Moneys collected or received for the use and benefit of these groups are deposited to the CRF. Pursuant to Section 61(2) of the *Indian Act*, interest on Indian moneys held in the CRF is allowed at a rate fixed from time to time by the Governor-in-Council. Interest accumulated in the accounts is compounded semi-annually.

Notes to the Financial Statements (*Unaudited*)

The following table shows the Department's financial obligations in its role as administrator of these Indian moneys:

(in thousands of dollars)

		<u>2010</u>			<u>2009</u>
	<u>Opening balance</u>	<u>Receipts</u>	<u>Payments</u>	<u>Closing balance</u>	<u>Closing balance</u>
Indian Band Funds	1,071,809	205,420	(251,078)	1,026,151	1,071,809
Indian Savings Accounts	39,700	2,517	(4,215)	38,002	39,700
Indian Estates Accounts	<u>15,238</u>	<u>6,452</u>	<u>(4,981)</u>	<u>16,709</u>	<u>15,238</u>
Total	<u>1,126,747</u>	<u>214,389</u>	<u>(260,274)</u>	<u>1,080,862</u>	<u>1,126,747</u>

Indian Band Funds

These accounts were established to record moneys belonging to Indian bands throughout Canada pursuant to sections 61 to 69 of the *Indian Act*.

Moneys are classified as either capital moneys or revenue moneys.

Capital moneys of the band include all moneys derived from the sale of surrendered lands or the sale of band capital assets. Moneys from the sale of surrendered lands can include land sales, timber sales, oil and gas royalties, and sale of gravel. Revenue moneys are all moneys not classified as capital moneys.

Moneys are generally disbursed from these accounts pursuant to an authorized request from a band.

Indian Savings Accounts

These accounts were established to record moneys belonging to certain individual Indians pursuant to sections 52 and 52.1 to 52.5 of the *Indian Act*.

Sources of moneys include inheritances and per capita distribution of band funds. Moneys are generally disbursed from these accounts pursuant to an authorized request from an individual.

Indian Estate Accounts

These accounts were established to record moneys belonging to mentally incompetent individuals and deceased Indians pursuant to sections 42 to 51 of the *Indian Act*.

Sources of moneys belonging to mentally incompetent individuals include inheritances, per capita distribution of band funds, and provincial assistance payments. Payments are made from these accounts for the maintenance and care of the individuals.

Notes to the Financial Statements (*Unaudited*)

Estate accounts for deceased Indians include the proceeds of their liquidated assets that are held pending the settlement of the estate. The closing of the account usually corresponds with the final distribution to their heirs.

13. Settled claims

The liability for settled claims represents INAC's financial obligation pursuant to agreements related to comprehensive land claims.

Comprehensive land claims are negotiated in areas where Aboriginal title has not been dealt with by treaty or by other legal methods. In such cases, the claim is based on an Aboriginal group's traditional use and occupancy of that land. Comprehensive land claim settlements result in agreement on special rights Aboriginal peoples will have in the future with respect to lands and resources.

An act of Parliament, based on a negotiated agreement, establishes the authority for INAC to make claim payments. The interest rate attached to these claim payments is set out in the act, along with a claim payment schedule. Claim payments are generally made over a number of years.

At March 31, 2010, INAC had 11 outstanding settled claims (10 in 2009). Payments totalled \$104,000,000 in 2010 (\$113,000,000 in 2009).

The present value of the liability for settled claims, calculated using the appropriate Consolidated Revenue Fund Monthly Lending Rate as published by the Department of Finance, at March 31, 2010 is \$538,411,000 (\$607,931,000 in 2009).

Future scheduled claim payments are as follows:

(in thousands of dollars)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 and thereafter</u>	<u>Total</u>
Scheduled payments	<u>99,000</u>	<u>101,000</u>	<u>79,000</u>	<u>69,000</u>	<u>263,000</u>	<u>611,000</u>

14. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are classified into three categories: claims and litigation, environmental liabilities (contaminated sites) and loan guarantees.

Claims and litigation

There are hundreds of claims and pending and threatened litigation cases outstanding against the Department. Some of these potential liabilities 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, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

Notes to the Financial Statements (*Unaudited*)

There are four significant types of claims faced by the department: comprehensive land claims, specific claims, general litigation claims, and claims arising from the legacy of Indian residential schools.

There are 76 (76 in 2009) comprehensive land claims and 548 (588 in 2009) specific claims under negotiation, accepted for negotiation, or under review. Legal proceedings for 528 (525 in 2009) claims being pursued through the courts were still pending at March 31, 2010. And there are thousands of claims being managed by the Department with respect to the legacy of Indian residential schools, including class action claims, as well as claims submitted under its Alternative Dispute Resolution process and its Independent Assessment Process.

INAC has recorded an allowance of \$12,050,572,000 (\$10,335,936,000 in 2009) as an estimate of the likely liability that will result from the above claims. This estimate includes projections based on historical rates and costs of settlement of similar claims. Exposure to liability in excess of the amount accrued is \$408,607,000 (not estimated in 2009 - see Note 18).

Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is obligated to incur such costs.

INAC has identified contaminated sites for which a liability of \$1,901,998,000 (\$1,571,348,000 in 2009) has been recorded. Estimated additional clean-up costs of \$497,859,000 (\$333,634,000 in 2009) have not been accrued, as the likelihood of incurring these costs cannot be determined at this time.

INAC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become known.

Loan guarantees

Losses on loan guarantees are recorded when it is likely that a payment will be made to honour a guarantee. As at March 31, 2010, INAC has issued loan guarantees of \$1,847,388,000 (\$1,780,871,000 in 2009) for which a liability of \$1,660,000 (\$1,800,000 in 2009) has been recorded. INAC's authority limit for issuing loan guarantees under its On-reserve housing guarantee program is \$2.2 billion (\$2.2 billion in 2009).

Notes to the Financial Statements (*Unaudited*)

15. Employee benefits

Pension benefits

INAC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. For the year ended March 31, 2010, the expense amounts to \$50,540,000 (\$43,660,000 in 2009), which represents approximately 1.9 times (2.0 in 2009) the contributions by employees.

INAC'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.

Severance benefits

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

	<u>2010</u> <i>(in thousands of dollars)</i>	<u>2009</u>
Accrued benefit obligation, beginning of year	78,549	58,502
Expense for the year	1,501	25,818
Benefits paid during the year	<u>(5,730)</u>	<u>(5,771)</u>
Accrued benefit obligation, end of year	<u>74,320</u>	<u>78,549</u>

16. Contractual obligations

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

<i>(in thousands of dollars)</i>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 and thereafter</u>	<u>Total</u>
Transfer payments	<u>1,457,898</u>	<u>647,704</u>	<u>568,994</u>	<u>334,521</u>	<u>917,380</u>	<u>3,926,497</u>

Notes to the Financial Statements (*Unaudited*)

17. Related party transactions

INAC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. INAC enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, INAC received services which were obtained without charge from other Government departments as presented below.

a) Services provided without charge

During the year INAC received without charge from other departments, accommodation, the employer's contribution to the health and dental insurance plans, workman's compensation coverage, and legal services. These services without charge have been recognized in INAC's statement of operations as follows:

	<u>2010</u> <i>(in thousands of dollars)</i>	<u>2009</u>
Accommodation provided by Public Works and Government Services Canada (PWGSC)	34,711	33,795
Contributions covering employers' share of employees' insurance premiums and expenditures paid by TBS (excluding revolving funds)	34,377	32,292
Workers' compensation coverage provided by Human Resources Canada	495	516
Salary and associated expenditures for legal services provided by Justice Canada	<u>29,920</u>	<u>19,095</u>
Total	<u>99,503</u>	<u>85,698</u>

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include 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 as an expense in INAC's Statement of Operations.

b) Payables outstanding at year-end with related parties

	<u>2010</u> <i>(in thousands of dollars)</i>	<u>2009</u>
Accounts payable to other government departments and agencies	<u>26,601</u>	<u>17,303</u>

Notes to the Financial Statements (*Unaudited*)

18. Change in accounting estimate

During the year, the department developed and implemented more robust costing methodologies to better estimate the financial effects of certain contingent liabilities.

These changes in accounting estimates resulted in increases to expenses and associated liabilities that have been recognized in the current year.

As part of the costing methodology for the allowance for claims and litigation, a range of reasonably possible amounts was identified. As a result, exposure to liability in excess of the amount accrued of \$408,607,000 is disclosed.

The effects of these changes on the current year are summarized as follows:

(in thousands of dollars)

Allowance for claims and litigation	<u>489,427</u>
Environmental liabilities	<u>200,228</u>

19. Comparative information

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

Summary of the assessment of effectiveness of the system of Internal
Control Over Financial Reporting and the action plan of
Indian and Northern Affairs Canada

For the year ended March 31, 2010

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

Annex to the Statement of Management Responsibility

Note to reader

With the new Treasury Board *Policy on Internal Control*, effective April 1, 2009, departments are now required to demonstrate the measures they are taking to maintain an effective system of Internal Control Over Financial Reporting.

As part of this policy departments are expected to conduct annual assessments of their system of Internal Control Over Financial Reporting, establish action plans to address any necessary adjustments, and to attach to their Statements of Management Responsibility a summary of their assessment results and an action plan.

Effective systems of Internal Control Over Financial Reporting aim to achieve reliable financial statements and to 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; and
- Applicable laws, regulations and policies are complied with.

It is important to note that a system of Internal Control Over Financial Reporting is not designed to eliminate all risks, 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 Internal Control Over Financial Reporting is an ongoing process designed to identify and prioritize risks and the controls to mitigate these risks, as well as to monitor its performance in support of continuous improvement.

As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of Internal Control Over Financial Reporting will vary from one organization to the other based on risks and taking into account their unique circumstances.

Annex to the Statement of Management Responsibility

1. Introduction

This document is an annex to Indian and Northern Affairs Canada (INAC) *Statement of Management Responsibility Including Internal Control Over Financial Reporting* for the year ended March 31, 2010.

As required by the new Treasury Board *Policy on Internal Control*, effective April 1, 2009, this document provides summary information on the measures taken by INAC to maintain an effective system of Internal Control Over Financial Reporting (ICFR). In particular, it provides summary information on the risk assessments and subsequent controls-work conducted by INAC as at March 31, 2010, including progress, results, and related action plans, along with some financial highlights pertinent to understanding the control environment unique to the Department.

It is important to note that the system of ICFR is not designed to eliminate every possible 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 ICFR system is an ongoing process designed to identify and prioritize risks and the controls to mitigate those risks, as well as to monitor its performance in support of continuous improvement.

1.1 Authority, Mandate and Program Activities

INAC is one of the federal government departments responsible for meeting the Government of Canada's obligations and commitments to First Nations, Inuit and Métis, and for fulfilling the federal government's constitutional responsibilities in the North.

INAC supports Aboriginal people (First Nations, Inuit, and Métis) and Northerners in their efforts to:

- Improve social well-being and economic prosperity;
- Develop healthier, more sustainable communities; and
- Participate more fully in Canada's political, social, and economic development to the benefit of all Canadians.

Detailed information on INAC's authority, mandate and program activities can be found in the *Departmental Performance Report* <http://www.tbs-sct.gc.ca/dpr-rmr/2008-2009/inst/ian/iantb-eng.asp> and the *Report on Plans and Priorities* <http://www.tbs-sct.gc.ca/rpp/2009-2010/inst/ian/ian00-eng.asp>.

Annex to the Statement of Management Responsibility

1.2 Financial highlights

The unaudited 2009-10 financial statements of INAC can be found at <http://www.ainc-inac.gc.ca/ai/arp/pubs/index-eng.asp> . Financial information about INAC can also be found in the Public Accounts of Canada <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html>.

In summary:

- Total expenses were \$9.3B. Transfer payments represent the majority (68% or \$5.8B) followed by salaries (6% or \$505M for 5,186 employees). Approximately 59% (\$5B of total expenses are to, or on behalf of, Aboriginals to provide education, health and social programs to First Nations and Inuit communities.
- Total revenues were \$204M largely from the Resource Royalty Revenues (55% or \$113M) and Norman Wells project profit (36% or \$74M).
- Tangible Capital Assets represent 5% of total assets (\$955M).
- The loans receivable were \$747M comprising the majority (78%) of INAC's total assets. The majority (99% or \$740M) of total loans receivable are from the Direct Loans portfolio, which has two active programs - the Native claimant and the First Nation in British Columbia.
- Environmental liabilities and Allowance for claims and litigation account for 83% of total liabilities (\$17B).
- INAC has a strong finance function - utilizing a CFO model, with a CFO reporting directly to the Deputy Minister and a CFO branch at Headquarters responsible for setting financial policy, undertaking financial planning and monitoring functions, and providing financial advice and guidance to the Department as required.
- INAC has a strong regional presence representing approximately 50% (\$1B) of the Department's operating expenses. There is a decentralized finance and accounting function in each of the regional offices that initiate, approve, process and/or record a significant portion of operating expenses. The Department has focused on creating a strong community of financial advisors.
- INAC has six (6) significant information systems that are critical to its operations and financial reporting.

1.3 Service arrangements relevant to financial statements

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

Common arrangements include:

- Public Works and Government Services Canada centrally administers the payments of salaries and benefits, the procurement of some goods and services, as well as the provision of accommodations on behalf of INAC;
- Salary and associated expenditures of legal services are provided by Justice Canada;
- Worker's Compensation coverage is provided by Human Resources and Social Development Canada;

Annex to the Statement of Management Responsibility

- The Office of the Comptroller General within the Treasury Board Secretariat provides INAC with a percentage ratio to be used when calculating their severance pay liability for purposes of our financial statements. To calculate the liability amount, this ratio is applied to INAC's annual gross payroll for indeterminate employees. The calculation of the ratio is based on an actuarial report prepared by the Office of the Chief Actuary within the Office of the Superintendent of Financial Institutions. The Chief Actuary actuarial reports are reviewed by the Office of the Auditor General;
- The Treasury Board Secretariat provides INAC with an annual dollar figure for the services it provides without charge for the health and dental care insurance plans, which are funded centrally.

Specific arrangements include:

- Public Works and Government Services Canada performs the day-to-day administration of the Public Service Pension plan;
- The Office of the Chief Actuary within the Office of the Superintendent of Financial Institutions prepares a triennial actuarial valuation of the Public Service Pension Plan and an annual valuation for the Public Accounts and the Plan's financial statements;
- Public Works and Government Services Canada performs the day-to-day administration of some centrally funded expenses such as, but not limited to, the following:
 - the employer's share of Canada/Quebec Pension plan contributions;
 - Employment Insurance premiums and provincial payroll taxes.

These types of expenses are recorded on Treasury Board Secretariat's financial statements as Government-wide funds and are representative of Treasury Board Secretariat in its support to Treasury Board as the employer of the public service.

1.4 Significant changes in fiscal year 2009-10

Ms. Susan MacGowan, CMA became INAC's new Chief Financial Officer effective May 25, 2010.

2. INAC control environment relevant to Internal Control Over Financial Reporting

Senior leadership at INAC ensure that staff at all levels understand their roles and responsibilities in maintaining effective systems of Internal Control Over Financial Reporting and that they possess the knowledge and tools to exercise these responsibilities effectively.

INAC's objective is to continuously improve its internal control environment using a risk-based approach and targeted resource investment so that the required level of effectiveness is efficiently achieved. Outlined below are the key roles and responsibilities and the key measures by which staff are equipped to manage risks within INAC relative to the ICFR.

Annex to the Statement of Management Responsibility

2.1 Key positions, roles and responsibilities

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

Deputy Minister - INAC's Deputy Minister, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Minister chairs the Departmental Audit Committee and the Senior Management Committee, Policy Committee, and the Financial Management Committee.

Chief Financial Officer - INAC's Chief Financial Officer reports directly to the Deputy Minister and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of Internal Control Over Financial Reporting, including its annual assessment.

Senior Departmental Managers - INAC's senior departmental managers in charge of program delivery are responsible for reviewing and maintaining the effectiveness of their system of Internal Control Over Financial Reporting in their area of responsibilities.

Chief Audit Executive - INAC's Chief Audit Executive reports directly to the Deputy Minister and provides assurance through periodic internal audits, which are instrumental to the maintenance of an effective system of Internal Control Over Financial Reporting. Falling under the Chief Audit Executive's responsibilities is also the management of the Corporate Risk Profile of INAC.

Departmental Audit Committee - The Departmental Audit Committee is an advisory committee that provides objective views on the Department's risk management, control and governance frameworks. It is comprised of four external members and was established in June 2007. As such, it reviews INAC's Corporate Risk Profile and its system of internal control, including the assessment and action plans relating to the system of Internal Control Over Financial Reporting.

2.2 Key measures undertaken by INAC

INAC'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 measures include:

- Centre of Integrity, Values, and Conflict Resolution under the Corporate Secretariat;
- A dedicated division, under the Chief Financial Officer, on internal control;
- Annual performance agreements with clearly defined financial management responsibilities;
- Training program and communications in core areas of financial management;
- Departmental policies tailored to INAC's control environment (e.g. Account Verification framework, Revised Transfer Payments Policy);
- Regularly updated delegated authorities matrix;

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- Documentation of significant business processes and related key risk and control points to support the management and oversight of its system of Internal Control Over Financial Reporting;
- Information Technology (IT) processing systems to achieve greater security, integrity, efficiency and effectiveness; and
- Rigorous oversight and review of ongoing resource utilization through monthly financial status reports.

3. Assessment of INAC's system of Internal Control Over Financial Reporting

3.1 Assessment baseline

In 2004, the Government of Canada commenced an initiative to determine the ability of departments to sustain controls-based audits of their financial statements, thus placing reliance on well functioning internal controls. As a result, beginning in 2006, the largest departments, including INAC, are formalizing their approach to managing their systems of ICFR, including readiness assessments and action plans.

ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting policies.

INAC has adopted an ICFR framework in order to:

- Communicate control objectives and performance expectations;
- Provide support for an audit of Departmental Financial Statements if requested;
- Define and provide assurance on the system of ICFR in support of the accountabilities under the Policy of Internal Control, the Financial Administration Act and the Federal Accountability Act; and
- Identify linkages and provide support to the annual assurance report that is required from the Department's Chief Audit Executive under the Treasury Board Policy on Internal Audit.

Whether it is to support the controls-based audit requirements or those of the *Policy on Internal Control*, there are numerous benefits to the need for assurance on auditable departmental financial statements in the federal government. They include:

- Appropriately authorized transactions;
- Properly maintained financial records;
- Safeguarded assets;
- Compliance with applicable laws, regulations and policies; and
- Enhanced accountability and transparency of controls associated with financial management.

Over time, this includes assessment of design and operating effectiveness of the system of ICFR leading to ensure the on-going monitoring and continuous improvement of the departmental system of ICFR.

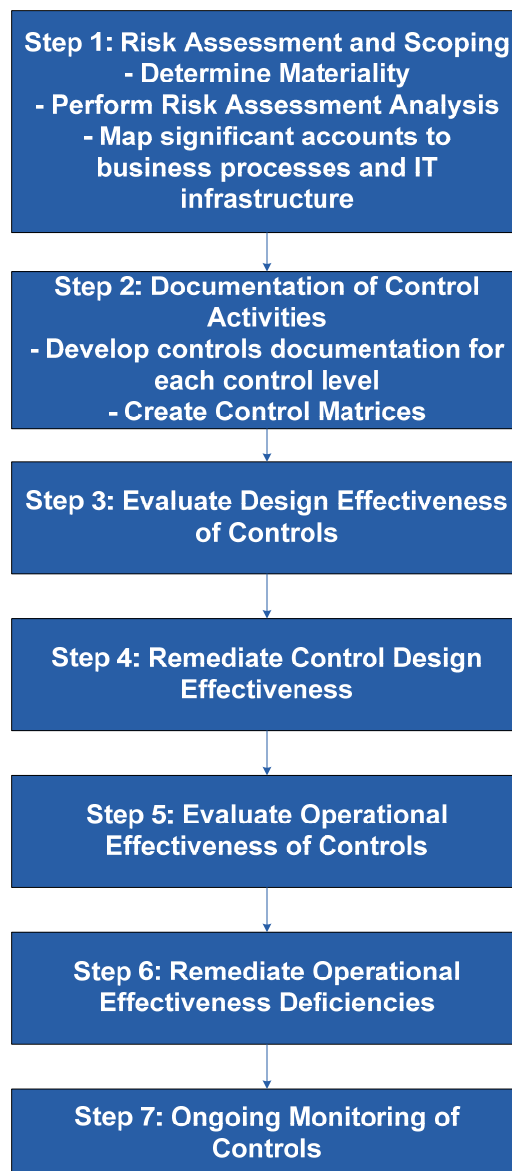
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Design effectiveness means ensuring that the key control points are identified, documented, in place and are aligned with the risks (i.e. controls are balanced with, and proportionate to, the risks they aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location, as applicable.

Operating effectiveness means that the application of key controls has been tested over a defined period and that any required remediation is addressed. Such testing covers all departmental control levels, which include corporate, or entity, general computer, and business process controls.

3.2 Assessment approach at INAC

To achieve INAC's ICFR objective, INAC's PIC/AFS team adopted the following ICFR approach:



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4. INAC's assessment results

As a result of the assessment approach described above, INAC has developed baseline architecture of key control points by material accounts. As at March 31, 2010, INAC has completed its assessment of the design effectiveness for the areas of focus outlined in the table below and is in the process of implementing any remediation required.

INAC ICFR Areas of Focus		
Workstream - Control	Scope	Testing Location
Financial Transactions	Grants and Contributions (G&C) Purchases, Payables and Payments Payroll Trust Accounts Direct Loans Guaranteed Loans Revenue Management Capital Assets Comprehensive Claims Specific Claims	NCR, BC, and SK NCR, BC, and SK NCR, BC, and SK NCR, BC, and IOGC NCR and BC NCR, BC, and QC NCR NCR NCR and BC NCR and QC
Financial Reporting	Environmental Liabilities Claims and Litigation Liabilities Loan Guarantees Legacy of Indian Residential School Liability Financial Reporting	NCR, B.C., Nunavut NCR NCR NCR NCR
Information Technology General Controls (ITGC) (Access Management, Quality Assurance and Testing, Change Management, Disaster Recovery)	OASIS (Oracle Financial System) FNITP (First Nation & Inuit Transfer Payment System) RIMS (Resource Information Management System) OSMS/RPS (OASIS Salary Management System/Regional Pay System) GLMS (Guaranteed Loan Management System) TFMS (Trust Fund Management System) IEMS (Integrated Environmental Management System) PeopleSoft (Oracle PeopleSoft Enterprise) SCBDB (Specific Claims Branch Database)	NCR NCR NCR and AB NCR TBD TBD TBD TBD TBD
Entity Level Controls (ELC)	Control Environment Risk Assessment Control Activities Information and Communication Monitoring	NCR NCR NCR NCR NCR

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Step 1: Risk Assessment and Scoping

The initial audit readiness assessment was completed in 2007. An ICFR Framework to guide internal control activities was developed and, using the findings from this assessment and the assessment approach described above, INAC developed a list of significant accounts as its Areas of Focus.

Step 2: Documentation of Control Activities

The following tasks were completed to document control activities:

- Gathered information pertaining to processes and locations, risk and controls relevant to ICFR, including appropriate policies and procedures;
- Consolidated all ELC documentation related to Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring;
- Created a system diagram identifying all relevant IT systems and their relationship to financial information;
- Consolidated ITGC documentation related to Access Management, Change Management, Disaster Recovery and Quality Assurance and Testing; and
- Developed and validated Financial Transaction and Reporting Controls documentation (process maps, narratives, and control matrices) for processes that have significant impact to the financial statements.

4.1 Design effectiveness of key controls

Step 3: Evaluate Design Effectiveness of Controls

The following tasks were completed to evaluate design effectiveness:

- Validated Financial Transaction and Reporting Controls documentation in regional offices including British Columbia, Saskatchewan, Alberta and Quebec;
- Assessed Design Effectiveness for all control levels and determined control gaps.

Step 4: Remediate Design Deficiencies

The following task was completed to remediate design deficiencies:

- Worked with process and system owners to develop remediation plans.

Following INAC's ICFR approach, the Department has developed control documentation for all in-scope control areas, with the exception of Tangible Capital Assets, Revenue Management (Financial Transaction Controls), four remaining IT systems, Contingent liabilities (Non-Litigation), Indian Residential School Liabilities, and Entity Level Controls.

INAC is currently between Step 3, Evaluate Design Effectiveness, and Step 4, Remediate Design Effectiveness, of its ICFR approach. Step 5, Evaluate Operational Effectiveness, is expected to start in 2010-11.

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As a result of the design effectiveness assessment approach highlighted in Section 3.1 and 3.2, INAC's PIC/AFS team recommended the following remedial activities to address control level gaps.

Entity Level Controls

- Update Financial Policy Manual and Procurement Policies;
- Continue to update and develop formal documentation of Entity Level Controls.

Information Technology General Controls

- Ensure consistent approach to Access Management across IT environment;
- Develop change management framework applicable to all systems in IT environment.

Financial Transactions Controls

- Strengthen the processes to evaluate and approve G&C recipient eligibility;
- Implement monitoring standards for payables at year-end (PAYE);
- Implement consistent use of the procurement system across regions;
- Ensure segregation of duties on purchase order creation;
- Update delegation of signing authority;
- Ensure active monitoring of older suspense accounts related to trust accounts;
- Fully implement post-audit process on payment across all regions.

Financial Reporting Controls

- Strengthen internal monitoring and review of the environmental liability reporting process;
- Implement secondary review of Receiver General submissions;
- Expand Financial Statement support file;
- Improve reconciliation process and define system-to-system reconciliation requirements.

Monitoring and quality assurance of financial statement preparation

- Greater clarity of roles and responsibilities as well as improved challenge functions and quality assurance over the trial balance or amounts and disclosures in the financial statements, including for the central accounting and reporting unit as well as all branches and programs.

4.2 Operating effectiveness of key controls

In 2010-11, INAC will commence Step 5 of its ICFR approach, the assessment of operating effectiveness of key controls. In doing so, it will implement a risk-based testing approach to identify key controls to be tested over a defined period of time, including the selection of locations, the test period, as well as the method and frequency of testing.

Operating effectiveness assessment will not commence until all remediation of design effectiveness gaps, associated with Step 4, have been implemented. When completing operating effectiveness testing, the Department will ensure that key controls will function over a 12-month period, or a specified period of time during the fiscal year based on risks.

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5. INAC's action plan

5.1 Progress as at March 31, 2010

During 2009-10, INAC continued to make significant progress in assessing and improving its key controls. Below is a summary of the main progress made by INAC.

INAC completed work to address the following necessary adjustments:

- Completion of the documentation and design testing of all key processes and controls (i.e. except for Capital Assets and Revenue Management) at the headquarters and selected regional levels. This includes the mapping of selected regional process to the financial statements;
- Establishment of a risk assessment process for ICFR;
- Completion of a control framework for environmental liabilities;
- Completion and implementation of the Departmental Account Verification framework to support the Chief Financial Officer in its role.

INAC substantially advanced work to address the following necessary adjustments:

- Streamlining and standardization of key controls between selected regional offices that initiate, approve, process and/or record a significant portion of INAC's operating expenditures;
- Revised control framework for payroll;
- Implementing a standardized Payable at Year End monitoring process;
- Implementing control of access to IT programs and data, IT program changes, and backup and recovery of data
- Strengthening INAC's Corporate Accounting and Reporting team with an increased focus on quality assurance, greater clarity of roles and responsibilities as well as improved challenge functions and quality assurance over trial balance at all levels.

5.2 Action plan for the next fiscal year and future years

Whether it is to support controls-based audits or meet the requirements of the *Policy on Internal Control*, departments need to be able to maintain an effective system of ICFR with the objectives to provide reasonable assurances that transactions are appropriately authorized, financial records are properly maintained, assets are safeguarded and applicable laws, regulations and policies are complied with.

Building on progress to date, INAC is positioned to complete the assessment of its system of ICFR by 2014-15.

By end of 2010-11 INAC plans to:

- Complete all areas that have been substantially advanced in 2009-10 and in particular, the remaining design effectiveness testing, undertake remediation work to address identified design effectiveness gaps and where remediation is complete proceed with the evaluation of operational effectiveness.

By end of 2011-12 INAC plans to:

- Complete 50% of operational effectiveness testing and address any related remediation.