

AEC Briefing Note
2003-704 Audit of the Telecommunications and Informatics Common Services
Revolving Fund Financial Statements 2002/2003

Authority for the Project

The audit of the financial statements of the Telecommunications and Informatics Common Services (TICS) Revolving Fund was undertaken in accordance with the 2002/2003 Audit and Evaluation Plan as approved by the departmental Audit and Review Committee.

Objective

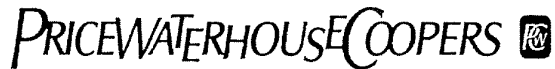
The objective of the audit was to attest to the fair presentation in the financial statements of the Fund's financial position and the results of its operations and cash flow for the year ended March 31, 2003 for the purpose of reporting to the Deputy Minister and the departmental Senior Financial Officer. The financial statements and Auditor's Report are published in the Public Accounts of Canada.

Results

The audit resulted in the provision of the attached auditor's report (opinion) by the public accounting firm Ernst and Young LLP.

**Telecommunications and Informatics
Common Services Revolving Fund**

**Financial Statements
March 31, 2003**



May 23, 2003

PricewaterhouseCoopers LLP
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Auditors' Report

**To the Director General, Audit and Ethics Branch
Public Works and Government Services Canada**

We have audited the balance sheet of the **Telecommunications and Informatics Common Services Revolving Fund** as at March 31, 2003, the statements of operations, accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the management of the Telecommunications and Informatics Common Services Revolving Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Telecommunications and Informatics Common Services Revolving Fund as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting as disclosed in note 2 to the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

Telecommunications and Informatics Common Services Revolving Fund

BALANCE SHEET

	As at March 31	
	2003	2002
<i>In thousands of dollars</i>		
Assets		
Current		
Accounts receivable		
Government of Canada	9,467	17,064
Outside parties	719	861
Other assets (note 3)	6,550	1,269
	<u>16,736</u>	<u>19,194</u>
Capital assets (note 4)	433	166
	<u>17,169</u>	<u>19,360</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	257	520
Outside parties	8,861	15,555
Other liabilities	731	601
	<u>9,849</u>	<u>16,676</u>
Allowance for employee termination benefits	2,873	2,754
	<u>12,722</u>	<u>19,430</u>
Equity of Canada		
Accumulated net charge against the Fund's authority	(10,373)	(14,181)
Accumulated surplus	14,820	14,111
	<u>17,169</u>	<u>19,360</u>

The accompanying notes are an integral part of the financial statements

Telecommunications and Informatics Common Services Revolving Fund

STATEMENT OF OPERATIONS

	Year ended March 31	
	2003	2002
<i>In thousands of dollars</i>		
Revenues	115,450	131,814
Cost of sales	84,134	102,339
Cost of sales - amortization	89	33
Gross margin	<u>31,227</u>	<u>29,442</u>
Operating expenses		
Salaries and employee benefits	14,444	12,811
Employee termination benefits	241	308
Professional and special services	12,414	10,653
Corporate and administrative services	1,027	1,017
Occupancy costs	858	816
Utilities, materials and supplies	640	737
Transportation and communications	630	1,003
Amortization	78	141
Purchased repair and maintenance	58	14
Information	34	33
Rentals	66	52
Other expenses	28	37
	<u>30,518</u>	<u>27,622</u>
Net income	<u>709</u>	<u>1,820</u>

The accompanying notes are an integral part of the financial statements

Telecommunications and Informatics Common Services Revolving Fund

STATEMENT OF ACCUMULATED SURPLUS

	Year ended March 31	
	2003	2002
<i>In thousands of dollars</i>		
Balance, beginning of year	14,111	12,291
Net income	709	1,820
Balance, end of year	<u>14,820</u>	<u>14,111</u>

The accompanying notes are an integral part of the financial statements

Telecommunications and Informatics Common Services Revolving Fund

STATEMENT OF CASH FLOWS

	Year ended March 31	
	2003	2002
<i>In thousands of dollars</i>		
Operating activities		
Net income	709	1,820
Items not affecting use of the Fund's authority		
Amortization	167	174
Provision for employee termination benefits	241	308
	<u>1,117</u>	<u>2,302</u>
Changes in working capital (note 6)	(4,369)	(2,788)
Payment on provision for employee termination benefits	(122)	(51)
Net financial resources used by operating activities	<u>(3,374)</u>	<u>(537)</u>
Investing activities		
Capital assets - acquisitions	(434)	(114)
Net financial resources used by investing activities	<u>(434)</u>	<u>(114)</u>
Net decrease in accumulated net charge against the Fund's authority	(3,808)	(651)
Accumulated net charge against the Fund's authority, beginning of year	<u>14,181</u>	<u>14,832</u>
Accumulated net charge against the Fund's authority, end of year	<u><u>10,373</u></u>	<u><u>14,181</u></u>

The accompanying notes are an integral part of the financial statements

Telecommunications and Informatics Common Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

1. AUTHORITY AND PURPOSE

The Government Telecommunications Agency (GTA) Revolving Fund was established in 1963 to plan and provide telecommunications facilities and services for federal departments and agencies. Section 5.2 of the *Revolving Funds Act* authorizes the Minister to make payments out of the Consolidated Revenue Fund for working capital, capital equipment and temporary financing of operating requirements, the total of which was not to exceed \$8,000,000 at any time. The authority was increased intermittently over the years. The last increase was for \$34,000,000, which brought the authority to \$64,000,000 as per *Appropriation Act No. 4, 1991-92* which was repealed in 1996 and replaced by section 5.5 of the *Revolving Funds Act*. As per Treasury Board decision 827175, on April 1, 1999 the draw down authority of the GTIS Revolving Fund was reduced from \$64,000,000 to \$45,000,000 and the accumulated surplus was reduced by \$20,000,000.

In 2001-2002, in accordance with Section 12 of the *Revolving Fund Act*, and through the 2001-2002 Supplementary Estimates (B) (Treasury Board decision 829420 dated December 6, 2001), the draw down authority of the Fund was reduced from \$45,000,000 to \$20,000,000.

As part of the restructuring announced June 25, 1993, GTA was merged with the informatics groups from the former Supply and Services Canada (SSC) and Public Works Canada (PWC) to form what is called Government Telecommunications and Informatics Services (GTIS). As of April 1, 1994 all balances in the GTA Revolving Fund were transferred to the GTIS Revolving Fund. The 1998-99 Planning, Reporting and Accountability Structure (PRAS) exercise transferred the activities providing internal support to PWGSC from the GTIS Revolving Fund to the Vote effective April 1, 1998.

In 2002-2003, the Revolving Fund changed its name to Telecommunications and Informatics Common Services Revolving Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada to the extent that they are in accordance with Government policies and directives. The significant accounting policies include the following:

a) Revenues and expenses

Revenues and expenses are recorded on the accrual basis of accounting

Telecommunications and Informatics Common Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b) Inventories

Inventories are valued at the lower of cost or the net realization value and are recorded on a first-in, first-out basis.

c) Capital assets

Assets having a purchase cost of \$10,000 or more are capitalized. Capital assets are stated at cost and are amortized on a straight line basis over the estimated economic lives as follows:

Category	Estimated useful economic lives
Informatics hardware	3 years
Informatics software	3 years

Assets are amortized commencing the month after acquisition.

d) Pension plan

Employees are covered by the *Public Service Superannuation Act* and the *Supplementary Retirement Benefits Act*. The Government of Canada's portion of the pension cost is included in the employee fringe benefit charge assessed against the Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts.

e) Employee termination benefits

Termination benefits accrue to employees over their years of service with the Government of Canada as provided for under collective agreements, and the estimated costs of these benefits are recorded in the accounts as they are earned by the employees.

An accrual is made for severance entitlements on service prior to April 1, 1994. This accrual represents a net liability assumed by the Fund and thus was charged to the Fund's accumulated net charge against the Fund's authority.

f) Insurance

The fund does not carry insurance on its property. This is consistent with the Government's policy of self-insurance.

Telecommunications and Informatics Common Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

3. OTHER ASSETS

In thousands of dollars

	2003	2002
Goods and Services Tax refundable advances	6,528	1,053
Prepaid expenses	20	137
Inventories	-	85
Other advances	2	(6)
	6,550	1,269

4. CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

In thousands of dollars

	Balance beginning of year	Acquisitions	Disposals / adjustments	Balance end of year
Capital Assets				
Informatics hardware	1,264	378	(423)	1,219
Informatics software	42	56	-	98
	1,306	434	(423)	1,317
	Balance beginning of year	Current year amortization	Disposals / adjustments	Balance end of year
Accumulated Amortization				
Informatics hardware	1,140	140	(423)	857
Informatics software	-	27	-	27
	1,140	167	(423)	884
Net	166			433

Telecommunications and Informatics Common Services Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2003

5. CONTRACTUAL COMMITMENTS

The fund is engaged in contracts with telecommunications suppliers. Future payments are as follows:

In thousands of dollars

2003-2004	44,054
2004-2005	27,843
2005-2006	2,183
2006-2007	44
	<u>74,124</u>

6. CHANGES IN WORKING CAPITAL

In thousands of dollars

	2003	2002	Changes
Current assets	16,736	19,194	2,458
Current liabilities	9,849	16,676	(6,827)
	<u>6,887</u>	<u>2,518</u>	<u>(4,369)</u>

7. COMPARATIVE FIGURES

Certain of the prior years' figures have been reclassified in order to conform to the presentation adopted in the current year.