

AEC Briefing Note
**2004-708 Audit of the Financial Report of Administrative Costs Chargeable
to the Canada Pension Plan Account for the year ended March 31, 2004**

Purpose

This briefing note reports the results of the audit of the Financial Report of PWGSC administrative costs chargeable to the Canada Pension Plan for the year ended March 31, 2004.

Background

The Canada Pension Plan (CPP) was established in 1965. The Minister of Social Development Canada (SDC) is currently responsible for administration of the Plan. The CPP Account records contributions, interest, pension and benefit expenditures, as well as administration costs charged to the Account by four federal government organizations: Social Development Canada (SDC); the Canada Revenue Agency (CRA); the Office of the Superintendent of Financial Institutions (OSFI); and Public Works and Government Services Canada (PWGSC).

PWGSC supports management of the CPP through the development, maintenance and operation of computer systems, the issuance of payments, and production of management information reports. The cost of these services is charged to the CPP Account on a quarterly basis and finalized on the basis of an annual audited Financial Report. Costs are charged by PWGSC in accordance with the provisions of a 1990 Memorandum of Understanding (MOU) between the former departments of Health and Welfare and Supply and Services Canada.

Audit Authority and Objective

The audit of administrative costs chargeable to the CPP Account by PWGSC was undertaken as part of the 2004/2005 departmental Audit Plan as approved by the Audit and Ethics Committee. The objective of the audit was to express an opinion as to whether the Financial Report fairly represents the administrative costs chargeable by PWGSC to the CPP.

Audit Results

The audit resulted in the provision of an unqualified Auditors' Report (audit opinion) by the public accounting firm PricewaterhouseCoopers on PWGSC's Financial Report of Administrative Costs Chargeable to the Canada Pension Plan Account for the year ended March 31, 2004. A copy of the audited Financial Report is tabled for information.

As a matter of interest, the audited financial statements of the Canada Pension Plan for the year ended March 31, 2004, as published in the annual Public Accounts of Canada, discloses that in addition to the administration costs of \$15 million charged by PWGSC (3.6% of the total \$410 million charged) an amount of \$309 million was charged by Human Resources Development Canada (now SDC) for the cost of pension and benefit delivery, accommodation and corporate services (75.4%); \$85 million by

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the Canada Customs and Revenue Agency (now CRA) for costs related to the collection of contributions (20.7%); and \$1 million by OSFI for the cost of actuarial services (0.3%).

Audit Issue

The 1990 MOU between the former departments of Health and Welfare and Supply and Services Canada is fourteen years old. The MOU, which sets out the costing principles and mutual roles and responsibilities for planning and controlling the delivery of services in support of the CPP, was to remain in effect for a period of three years, after which it was to be reviewed and updated if necessary to reflect operational changes. This matter is important given that the original signatory departments to the MOU no longer exist [*]. It is expected that any process to confirm or update the MOU would require CPP management approval and would involve all four organizations providing administrative support to the CPP (SDC, CRA, OSFI, and PWGSC). Within PWGSC, internal consultation would involve Banking and Cash Management Sector, Cheque Redemption Control Directorate, Cost Based Management Directorate, and Information Technology Services Branch.

Audit Recommendation

It is recommended that the Assistant Deputy Minister, Finance, Accounting, Banking and Compensation Branch pursue discussions with CPP management on the need to reconfirm or update the 1990 MOU between the former departments of Health and Welfare and Supply and Services Canada.