Northern Pipeline Agency

Annual Report

For Fiscal Year Ended March 31, 2013

Canada

Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

Annual Report

for Fiscal Year Ended
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Overview

The Northern Pipeline Agency (NPA) was created by the *Northern Pipeline Act* (the Act) in 1978 to carry out federal responsibilities in respect of the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Natural Gas Transportation System (ANGTS).

The project, also referred to as the Alaska Highway Gas Pipeline project (AHGP), is the subject of the 1977 Agreement between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline (the Canada-U.S. Agreement).

Phase I of the project (the Prebuild) was constructed in 1981-82 for the initial purpose of transporting gas sourced from Western Canada to the United States (U.S.). The current flow capacity of the Prebuild is approximately 3.3 billion cubic feet per day (Bcf/d).

Figures 1 and 2 show the proposed route of the ANGTS in Canada and the U.S., as well as details of the existing Prebuild in Canada.

Phase II of the project would link the Prebuild with U.S. reserves at Prudhoe Bay in Alaska. Unfavourable economic conditions from 1982 to the beginning of this decade led to indefinite delays in the completion of the ANGTS and a prolonged period of low activity for the Agency. In 2008, TransCanada PipeLines Limited (TransCanada), which now owns Foothills, was selected by the State of Alaska under the *Alaska Gasline Inducement Act* to receive up to $500 (USD) million in State assistance to pursue an Alaska gas pipeline. This large-scale project of 2,762 km, would transport 4.5 to 5.9 Bcf/d of natural gas in a buried 48-inch, high-pressure pipeline from Prudhoe Bay, Alaska, to markets in Canada and the lower 48 states. Project costs have been estimated at $32-41 billion (2009 USD) by TransCanada.

On March 30, 2012, ExxonMobil, ConocoPhillips, BP and TransCanada announced that they are working together on a work plan to assess liquefied natural gas exports from south-central Alaska as an alternative to a natural gas pipeline through Canada. For its part, the Agency remains ready, engaged and prepared to lead the review of the AHGP, if and when the project moves forward.

Figure 1:
The Alaska Natural Gas Transportation System

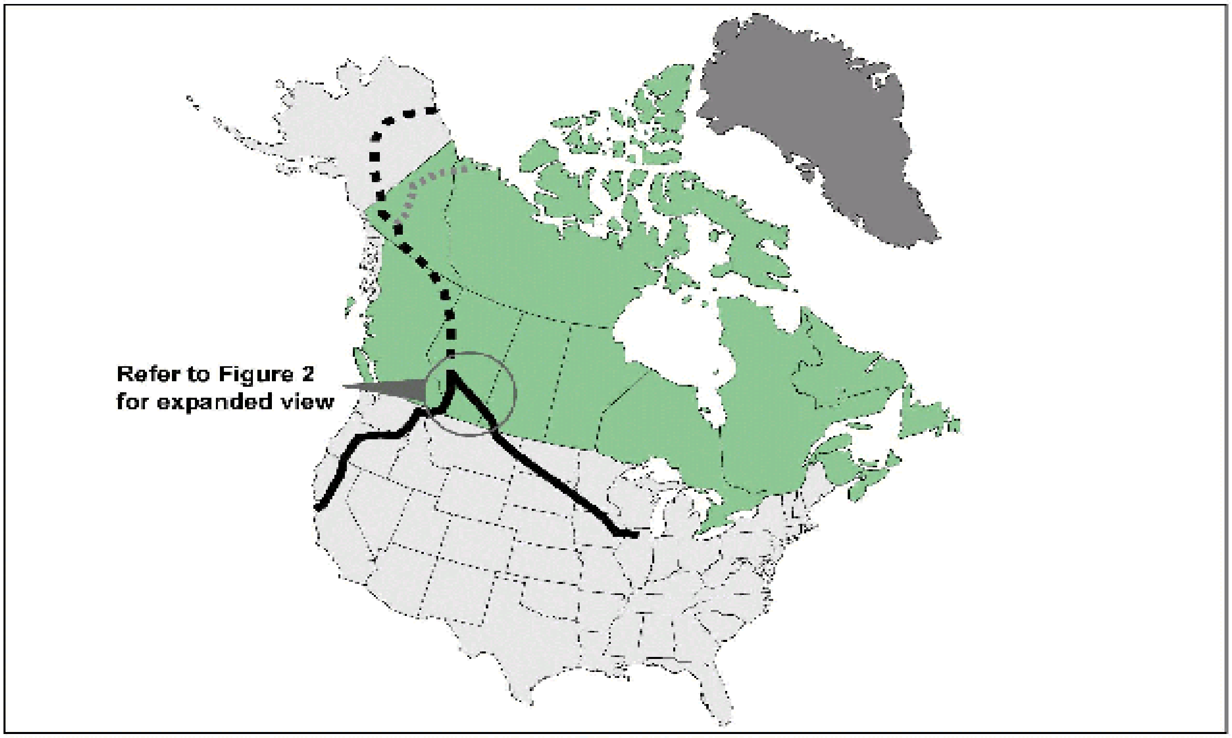
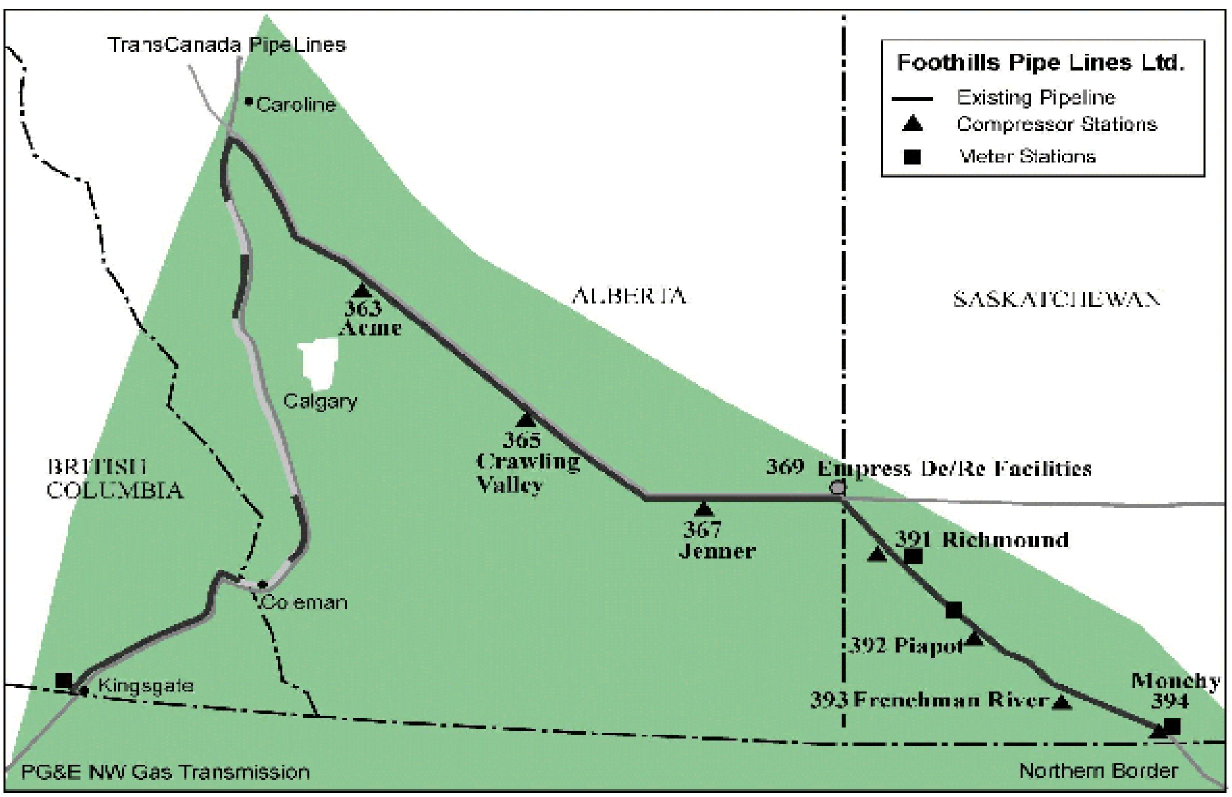


Figure 2:
The Foothills Prebuild



Background Information

For further background information on the ANGTS and the NPA's roles and responsibilities, reference may be made to the NPA's Departmental Performance Report for the period ending March 31, 2013.

This report may be accessed through the Northern Pipeline Agency Web site at http://www.npa.gc.ca

The NPA can be contacted at:

615 Booth Street, Room 412
Ottawa, Ontario K1A 0E9
Telephone: 613-995-1150
Email: info@npa-apn.gc.ca

Key 2012-2013 Activities

The NPA continued to deliver on the responsibilities of the Government of Canada that are embodied in the Act and the 1977 Canada-U.S. Agreement by working with other federal departments, provincial and territorial governments, Aboriginal groups, the U.S. Federal Energy Regulatory Commission (FERC), the U.S. Office of the Federal Coordinator (OFC), and TransCanada.

An amendment to the Canada-Foothills Easement Agreement was approved in July 2012. This amendment consisted of an extension to the construction build date from 2012 to 2022. TransCanada will continue to pay an annual fee to the Government of Canada to maintain its easement rights.

The Agency continued its engagement with Aboriginal communities along the pipeline route in Yukon and British Columbia and maintained a record of its consultations. In addition, the Agency implemented a contributions program that resulted in increased capacity for Aboriginal groups to meaningfully engage in consultation activities with the Agency.

The Agency undertook several steps to manage its records and project information. This included working with the OFC to create a link to an electronic library containing an extensive listing of historical reports on northern pipelines.

To obtain needed resources, the NPA entered into inter-agency agreements with the Departments of Justice, Natural Resources Canada, Fisheries and Oceans and Health Canada, as well as the National Energy Board.

Organization

The Minister for Natural Resources, the Honourable Joe Oliver, is responsible for the management and direction of the NPA.

The Act provides for the NPA Deputy Head, called the Commissioner, to be appointed by Governor in Council. Currently, this position is held by the Deputy Minister of Natural Resources Canada, Serge P. Dupont.

Daily operations of the NPA are managed by an Assistant Commissioner, who is supported by twelve full time employees, employed as needed. The Act provides for independent regulatory decision-making by a Designated Officer who must be a member of the National Energy Board.

Through a Service Agreement, Natural Resources Canada provides administrative, financial, and information technology assistance to the NPA.

Expenditures

Sections 13 and 14 of the Act provide for an annual audit of the accounts and financial transactions of the NPA by the Auditor General of Canada, and for a report thereon to be made to the Minister and laid before Parliament. In compliance with these requirements, the report of the Auditor General of Canada for the year ended March 31, 2013, is reproduced as an appendix to this report.

The NPA requested and received a reference level of $3,347,403 for 2012-2013. Recoverable expenses for the year totalled $1,930,845. All of the Agency's operating expenses are cost recovered from TransCanada.

Appendix:

Statement of Management Responsibility Including Internal Control Over Financial Reporting

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

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

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* 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 Agency; and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

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

The Agency will be subject to periodic Core Control Audits performed by the Office of the Comptroller General and will use the results of such audits to adhere to the Treasury Board Policy on *Internal Control*.

In the interim, the Agency has undertaken a risk-based assessment of the system of ICFR for the year ended March 31, 2013, in accordance with the Treasury Board Policy on *Internal Control*, and the action plan is summarized in the annex.

The Office of the Auditor General, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the financial statements of the Agency which does not include an audit opinion on the annual assessment of the effectiveness of the Agency's internal controls over financial reporting.

Serge P. Dupont
Commissioner

NOV 2 2 2013

Date signed
Ottawa, Canada

Chrystia Chudczak
Assistant Commissioner

NOV 2 2 2013

Date signed
Ottawa, Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Natural Resources

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

.../2

Opinion

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

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the Northern Pipeline Agency that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Northern Pipeline Act* and regulations, the *National Energy Board Cost Recovery Regulations* and the by-laws of the Northern Pipeline Agency.

Nancy Y. Cheng, FCPA, FCA
Assistant Auditor General
for the Auditor General of Canada

22 November 2013
Ottawa, Canada

Northern Pipeline Agency
Statement of Financial Position
As of March 31

	2013	**2012**
Liabilities		
Accounts payable and accrued liabilities (note 4)	$ 302,626	$ 701,207
Deferred revenue (note 5)	2,444,063	984,212
Total gross liabilities	**2,746,689**	**1,685,419**
Liabilities held on behalf of Government		
Deferred revenue (note 5)	(2,444,063)	(984,212)
Total liabilities held on behalf of Government	**(2,444,063)**	**(984,212)**
Total net liabilities	**302,626**	**701,207**
Financial assets		
Due from Consolidated Revenue Fund	258,533	656,756
Accounts receivable and advances (note 6)	1,289,944	1,098,242
Total gross financial assets	**1,548,477**	**1,754,998**
Financial assets held on behalf of Government		
Accounts receivable (note 6)	(1,271,967)	(1,084,661)
Total financial assets held on behalf of Government	**(1,271,967)**	**(1,084,661)**
Total net financial assets	**276,510**	**670,337**
Departmental net debt	**26,116**	**30,870**
Non-financial assets		
Tangible capital assets (note 7)	26,116	30,870
Total non-financial assets	**26,116**	**30,870**
Departmental net financial position	**$-**	**$-**

Contractual obligations (note 8)
The accompanying notes form an integral part of these financial statements.

Serge P. Dupont
Commissioner

NOV 2 2 2013

Date signed
Ottawa, Canada

Chrystia Chudczak
Assistant Commissioner

NOV 2 2 2013

Date signed
Ottawa, Canada

Northern Pipeline Agency
Statement of Operations and Departmental Net Financial Position
For the year ended March 31

	2013 Planned Results	2013	2012
Expenses			
Salaries and employee benefits	$1,207,939	$1,337,993	$1,084,493
Professional and special services	170,858	325,702	232,146
Transfer payments	1,710,000	135,946	644,106
Transportation and communication	94,653	68,365	128,281
Rentals	33,077	40,545	38,005
Small equipment	1,124	10,257	6,191
Utilities, materials, supplies	7,128	6,028	4,102
Information	541	1,255	570
Amortization	4,644	4,754	4,699
Total recoverable expenses	**3,229,964**	**1,930,845**	**2,142,593**
Services provided without charge by other government departments (note 9)	**66,900**	**120,651**	**119,522**
Revenues			
Regulatory revenue	3,229,964	1,930,845	2,142,593
Revenue earned on behalf of government	(3,229,964)	(1,930,845)	(2,142,593)
Total revenues	**0**	**0**	**0**
Net cost of operations before government funding	**3,296,864**	**2,051,496**	**2,262,115**
Government funding			
Net cash provided by Government	-	2,329,068	1,499,676
Change in due from Consolidated Revenue Fund	-	(398,223)	642,917
Services provided without charge by other government departments (note 9)	-	120,651	119,522
Net cost of operations after government funding	**-**	**-**	**-**
Departmental net financial position - Beginning of year	**-**	**-**	**-**
Departmental net financial position - End of year	**$0**	**$0**	**$0**

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

Northern Pipeline Agency
Statement of Change in Departmental Net Debt
For the year ended March 31

	2013	2012
Net cost of operations after government funding	**$-**	**$-**
Change due to tangible capital assets		
Acquisition of tangible capital assets	-	1,100
Amortization of tangible capital assets	(4,754)	(4,699)
Total change due to tangible capital assets	(4,754)	(3.599)
Net increase (decrease) in departmental net debt	**(4,754)**	**(3,599)**
Departmental net debt - Beginning of year	30,870	34,469
Departmental net debt - End of year	**$26,116**	**$30,870**

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

Northern Pipeline Agency
Statement of Cash Flows
For the year ended March 31

	2013	2012
Operating activities		
Net cost of operations before government funding:	$2,051,496	$2,262,115
Non-cash items:		
Amortization of tangible capital assets	(4,754)	(4,669)
Services provided without charge by other government departments (note 9)	(120,651)	(119,522)
Variations in statement of financial position:		
Increase (decrease) in accounts receivable and advances	4,396	(23,447)
(Increase) decrease in accounts payable and accrued liabilities	398,581	(615,871)
Cash used in operating activities	**2,329,068**	**1,498,576**
Capital investing activities		
Acquisitions of tangible capital assets	-	1,100
Cash used in capital investing activities	**-**	**1,100**
Net cash provided by Government of Canada	**$2,329,068**	**$1,499,676**

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

1. Authority and objectives

In 1978, Parliament enacted the *Northern Pipeline Act* to:

- give effect to an Agreement on Principles applicable to a Northern Natural Gas Pipeline (*the Agreement*) between the Governments of Canada and the United States of America; and
- establish the Northern Pipeline Agency (the Agency) to oversee the planning and construction of the Canadian portion of the project.

The Agency is designated as a department and named under Schedule I.1 of the *Financial Administration Act*, reporting to Parliament through the Minister of Natural Resources.

The objectives of the Agency are to:

1) carry out and give effect to the Agreement of September 20, 1977 between Canada and the United States underpinning the project;

2) carry out federal responsibilities in relation to the pipeline;

3) facilitate the efficient and expeditious planning and construction of the pipeline, taking into account local and regional interests;

4) facilitate consultation and coordination with the governments of the provinces and the territories traversed by the pipeline;

5) maximize the social and economic benefits of the pipeline while minimizing any adverse social and environmental effects; and

6) advance national economic and energy interests and to maximize related industrial benefits by ensuring the highest possible degree of Canadian participation.

In accordance with Section 29 of the *Northern Pipeline Act (the Act)* and with the National Energy Board Cost Recovery Regulations, the Agency is required to recover all of its annual operating costs from the companies holding certificates of public convenience and necessity. Currently, Foothills Pipe Lines Ltd. ("Foothills") is the sole holder of such certificates.

The Agency is reimbursed all recoverable expenses by Foothills and the funds are deposited in the Consolidated Revenue Fund ("CRF") of the Government of Canada. The Government of Canada, in turn, provides funds for working capital through an annual Parliamentary appropriation which is paid from the CRF.

Foothills has put the Alaska Highway gas pipeline project on hold pending further study of an alternative project that would exclude Canada. In 2013-14, and to align with reduced project activities in the foreseeable future, the Agency will scale down its operations while continuing to fulfil Canada's obligations as set out in the Agreement and *Northern Pipeline Act*.

2. Summary of significant accounting policies

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

Significant accounting policies are as follows:

a) Parliamentary appropriations:

The Agency is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the Agency 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 Departmental Net Financial Position 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. The planned results amounts in the Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statement included in the 2012-13 Report on Plans and Priorities.

b) Net cash provided by Government:

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

c) Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Agency is entitled to draw from CRF without further authorities to discharge liabilities.

d) Revenue/Deferred revenue:

Revenues from regulatory fees recovered from Foothills are recognized in the year in which the expenses were incurred.

Deferred revenues represent the accumulation of excess billings over the actual expenses.

Revenues that are non-respendable are not available to discharge the Agency's liabilities. While the Commissioner is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

e) Expenses:

Expenses are recorded on the accrual basis.

Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met all eligibility criteria or the entitlements established for the transfer payment program. Services provided without charge from other government departments are recorded as operating expenses at their estimated cost and credited directly to equity.

f) Employee future benefits:

Future benefits for seconded employees, including pension benefits, providing services to the Agency are funded by the employee's home-base department. Estimated costs charged by Treasury Board Secretariat are included in the employee benefits charged to the Agency.

g) Accounts receivable:

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

h) Tangible capital assets:

All tangible capital assets having an initial cost of $1,000 or more are recorded at their acquisition cost. Tangible capital assets owned by the Agency are valued at cost, net of accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful life of the assets as follows:

Machinery and equipment	10 years
Office furniture and equipment	10 years
Informatics hardware	4 years

i) Measurement uncertainty:

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Salaries and employee benefits and the useful life of tangible capital assets are the most significant items where estimates are used. 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 in which they become known.

3. Parliamentary appropriations

The Government of Canada funds the expenses of the Agency through Parliamentary appropriations. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Agency has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled as follows:

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

	2013	2012
Net cost of operations before government funding	$2,051,496	$2,262,115
Adjustments for items affecting net cost of operations but not affecting authorities:		
Less:		
Services provided without charge by other government departments	(120,651)	(119,522)
Amortization of tangible capital assets	(4,754)	(4,699)
Adjustments reflected in subsequent year authorities	(5,949)	(31,381)
Total items affecting net cost of operations but not affecting authorities	(131,354)	(155,602)
Adjustment for items not affecting net cost of operations but affecting authorities:		
Add:		
Acquisition of tangible capital assets	-	1,100
Current year authorities used	$1,920,142	$2,107,613

(b) Authorities provided and used:

	2013	2012
Vote 30 - Program expenditures	$3,103,000	$2,903,000
Vote 30b – Transfer from Vote 25	60,150	60,150
Statutory amounts	184,253	111,918
Lapsed appropriations	(1,427,261)	(967,455)
Current year authorities used	$1,920,142	$2,107,613

4. Accounts payable and accrued liabilities

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

	2013	2012
Accounts payable to other government departments and agencies	$240,420	$223,051
Accounts payable to external parties	52,036	478,156
Total accounts payable	292,456	701,207
Accrued liabilities	10,170	-
Total accounts payable and accrued liabilities	$302,626	$701,207

5. Deferred revenue

Deferred revenue consists of:

	2013	2012
Deferred revenue, opening balance	$984,212	$1,396,053
Net billings in the fiscal year	3,390,696	1,730,752
Recoverable expenses in the current year	(1,930,845)	(2,142,593)
Deferred revenue, gross closing balance	2,444,063	984,212
Deferred revenues held on behalf of Government	(2,444,063)	(984,212)
Net closing balance	$0	$0

6. Accounts receivable and advances

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

	2013	2012
Receivables - Other government departments and agencies	$16,107	$13,181
Receivables - External parties	1,271,967	1,084,661
Standing advances	1,870	400
Gross accounts receivable	1,289,944	1,098,242
Accounts receivable held on behalf of Government	(1,271,967)	(1,084,661)
Net account receivable	$17,977	$13,581

7. Tangible capital assets

	Cost				Accumulated amortization				Net book value	
Capital asset class	Opening balance April 1, 2012	Acquisi-tions	Disposals write-offs and other	Closing balance March 31, 2013	Opening balance April 1, 2012	Amorti -zation	Disposals write-offs and other	Closing balance March 31, 2013	Net book value 2013	Net book value 2012
Machinery and equipment	$ 24,829	-	-	$24,829	$2,497	$2,483	-	$4,980	$19,849	$22,332
Office furniture and equipment	12,362	-	-	12,362	5,776	1,236	-	7,012	5,350	6,586
Informatics hardware	9,301	-	-	9,301	7,349	1,035	-	8,384	917	1,952
Total	$46,492	$0	$0	$46,492	$15,622	$4,754	$0	$20,376	$26,116	$30,870

8. Contractual obligations

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

	2014	2015	2016	2017	2018	2019 and "Thereafter"	Total
Operating leases	$10,672	$9,471	$9,471	$9,471	$9,471	$0	$48,556

9. Related party transactions

The Agency is related as a result of common ownership to all Government of Canada departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises except that certain services, as defined previously, are received without charge.

Common services provided without charge by other government departments:

	2013	2012
Audit services provided by the Office of the Auditor General of Canada	$115,551	$114,000
Management services provided by Natural Resources Canada	5,100	5,522
Total	$120,651	$119,522

Accounts payable and receivable with related parties are detailed in Note 4 and 6, respectively.

Related party expenses for payroll amounted to $1,345,529 (2012 - $1,084,493) and for all other expenses relate primarily to professional and consulting services, and rental of storage space amounting to $308,467 (2012 - $187,621).

10. Easement fee

In 1983, the Government of Canada, pursuant to Subsection 37(3) of the *Northern Pipeline Act*, granted Foothills Pipe Lines Ltd. a twenty-five year easement upon and under lands in the Yukon Territory. For the right of easement, Foothills Pipe Lines Ltd. is to pay the Agency an annual amount of $30,400; of this annual amount, $2,806 (2012 - $2,806) is collected on behalf of and forwarded directly to the Government of the Yukon Territory. The balance of $27,594 (2012 - $27,594) was remitted to the Government of Canada by the Agency. This fee is not accounted for in these financial statements.

11. Financial instruments

The Agency's financial instruments consist of accounts receivable, accounts payable, deferred revenues and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed in these financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of the Northern Pipeline Agency for fiscal year 2012-2013 (*unaudited*)

Summary of the assessment of effectiveness of the system of internal control over financial reporting and the action plan

1. Introduction

This unaudited Annex provides summary information on the measures taken by the Northern Pipeline Agency (the Agency) to maintain an effective system of internal control over financial reporting (ICFR).

The Agency has a service partnership agreement with Natural Resources Canada (NRCan) regarding a full range of administrative and financial services, including: the maintenance of a delegation instrument and financial signing authority Specimen Signature Records, financial statement preparation, accounting, and financial and procurement transactions processing. As a result, the Agency's system of internal control is reliant on NRCan's system of internal control.

The Agency will leverage the results of the periodic Core Control Audit performed by the Office of the Comptroller General.

Detailed information on the Agency's authority, mandate, and program activities can be found in the Departmental Performance Report and the Report on Plans and Priorities.

2. Assessment results during fiscal year 2012-2013

The Agency operates under NRCan's control environment, which includes the establishment of an appropriate control environment and risk management processes.

Summary information on the maintenance of an effective system of ICFR by NRCan can be found in the *Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of Natural Resources Canada for fiscal year 2012-2013* (the NRCan Annex), which accompanies the NRCan's departmental financial statements.

Differences in processes between NRCan and the Agency are as follows:

- Some electronic tools used by NRCan are not used by the Agency.
- The billing process for the recovery of expenditures from Foothills Pipe Lines Limited/TransCanada PipeLines Limited is unique to the Agency.

Those differences are incorporated within the NRCan internal control documentation.

During 2012-2013, NRCan completed all remaining operating effectiveness testing of its key control areas, and also conducted on-going monitoring activities. NRCan conducted testing in the following areas: operating expenditures, capital assets, revenues and receivables and Information Technology (IT) general controls. For the most part, controls were functioning well and form an adequate basis for the NRCan's system of internal control.

The following corrective measures specific to the Agency were fully completed in 2012-2013: Development of more comprehensive procedures and checklists to support the calculation and timely invoicing of recoverable amounts from Foothills Pipe Lines Limited/Trans-Canada PipeLines Limited.

During 2012-2013, as indicated in the NRCan Annex, NRCan identified the following new remediation actions for activities that are also applicable to the Agency:

Operating expenditures:

- Ensure that all Payable at Year End (PAYE) transactions are approved under Section 34 of the *Financial Administration Act.*
- Conduct follow-up activities when managers do not provide confirmation of their review of delegation documents by the due date.

Capital Assets:

- Update procedures for the recording of capital assets under construction.
- Monitor asset disposal transactions recorded in SAP.

Revenues and accounts receivable

- Monitor the reversal of accounts receivable in SAP.
- Improve segregation of duties.

SAP access control processes under NRCan's management (IT general controls):

- Revise the procedure for checking SAP Segregation of Duties violations on user accounts.
- Strengthen the process for ensuring that contractors' accounts in SAP are cancelled at the end of their contracts.

Specimen Signature Record (SSR) application (IT general controls):

- Implement procedures to ensure administrator and corporate user access to the SSR application is appropriate and remains current when users change position.
- Ensure that all changes to the SSR application are properly approved and tested in a testing environment prior to being moved to the production environment.
- Resolve accountability issues surrounding the use of database generic accounts.

As a result of testing segregation of duties in the context of various processes above, NRCan identified a need for a review of the SAP configuration for the automated Segregation of Duties rules.

3. Assessment plan

A Service Partnership Agreement between NRCan and the Agency for administrative and financial services is still in effect.

In 2012-2013, NRCan completed the full initial assessment of its system of ICFR. As of 2013-2014 NRCan is in the on-going monitoring stage of its assessment of the system of ICFR; its on-going monitoring plan is available in the NRCan Annex that accompanies its 2012-2013 departmental financial statements.