

# Canada Border Services Agency

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## Canada Border Services Agency Financial Statements For the Year Ended March 31, 2016

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# 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, 2016, and all information contained in these statements rests with the management of the Canada Border Services Agency (CBSA). 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 CBSA’s financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in the CBSA'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 CBSA 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.

A risk-based assessment of the system of ICFR for the year ended March 31, 2016 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

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

The financial statements of the CBSA have not been audited.

**Linda Lizotte-MacPherson, President**

*Ottawa, Canada*

*August 16, 2016*

**Christine Walker, Chief Financial Officer**

*Ottawa, Canada*

*August 16, 2016*

# Financial Statements - Agency Activities

## Canada Border Services Agency (Agency Activities) Statement of Financial Position (Unaudited) As at March 31

<i>(in thousands of dollars)</i>		
	2016	2015
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 4)	167,205	173,226
Vacation pay and compensatory leave	60,246	66,631
Deposit accounts (note 6)	27,996	27,311
Environmental liabilities (note 5)	1,184	2,480
Provision for claims and litigation (note 12)	665	815
Employee future benefits (note 7)	78,478	82,894
<b>Total liabilities</b>	<b>335,774</b>	<b>353,357</b>
<b>Financial assets</b>		
Due from Consolidated Revenue Fund	153,197	157,130
Accounts receivable and advances (note 8)	15,964	18,594
<b>Total gross financial assets</b>	<b>169,161</b>	<b>175,724</b>
<b>Financial assets held on behalf of Government</b>		
Accounts receivable and advances (note 8)	(2,004)	(2,209)
<b>Total financial assets held on behalf of Government</b>	<b>(2,004)</b>	<b>(2,209)</b>
<b>Total net financial assets</b>	<b>167,157</b>	<b>173,515</b>
<b>Departmental net debt</b>	<b>168,617</b>	<b>179,842</b>

Non-financial assets		
Inventory (note 9)	3,703	9,787
Tangible capital assets (note 10)	951,078	863,345
Total non-financial assets	954,781	873,132
Departmental net financial position	786,164	693,290

Contractual obligations (note 11)  
Contingent liabilities (note 12)  
The accompanying notes form an integral part of these financial statements.

Canada Border Services Agency (Agency Activities)  
Statement of Operations and Departmental Net Financial Position (Unaudited)  
For the Year Ended March 31

(in thousands of dollars)			
	2016 Planned Results	2016	2015
Expenses			
Admissibility Determination	1,006,690	954,965	955,235
Internal Services	359,131	405,807	392,280
Risk Assessment	171,874	177,644	184,805
Immigration Enforcement	159,500	173,788	189,962
Revenue and Trade Management	110,708	91,719	91,135
Secure and Trusted Partnerships	48,322	43,866	52,124
Criminal Investigations	26,644	34,357	37,932
Recourse	11,241	12,134	13,512
Total expenses	1,894,110	1,894,280	1,916,985

Revenues			
Sales of goods and services	20,310	21,672	19,634
Miscellaneous Revenues	2,861	1,532	1,305
Revenues earned on behalf of Government	(4,741)	(3,336)	(2,748)
Total revenues	18,430	19,868	18,191
Net cost of operations before government funding and transfers	1,875,680	1,874,412	1,898,794
Government funding and transfers			
Net cash provided by Government	-	1,794,392	2,040,834
Services provided without charge by other government departments (note 13)	-	177,174	164,049
Change in due from Consolidated Revenue Fund	-	(3,933)	(50,328)
Transfer of the transition payments for implementing salary payment in arrears (note 14)	-	(347)	(39,207)
Net cost of operations after government funding and transfers	-	(92,874)	(216,554)
Departmental net financial position - Beginning of year	-	693,290	476,736
Departmental net financial position - End of year	-	786,164	693,290

Segmented Information (Note 15)  
The accompanying notes form an integral part of these financial statements.

Canada Border Services Agency (Agency Activities)  
Statement of Change in Departmental Net Debt (Unaudited)  
For the Year Ended March 31

(in thousands of dollars)		
	2016	2015
Net cost of operations after government funding and transfers	(92,874)	(216,554)
Changes due to tangible capital assets		
Acquisition of tangible capital assets	165,960	181,138

Amortization of tangible capital assets	(76,748)	(56,432)
Proceeds from disposal of tangible capital assets	(501)	(456)
Net loss on disposal of tangible capital assets	(1,155)	(1,222)
Adjustments to tangible capital assets	177	1,879
Total change due to tangible capital assets	87,733	124,907
Change due to inventories	(6,084)	(2,856)
Change due to prepaid expenses	-	(177)
Net decrease in departmental net debt	(11,225)	(94,680)
Departmental net debt - Beginning of year	179,842	274,522
Departmental net debt - End of year	168,617	179,842

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

Canada Border Services Agency (Agency Activities)  
Statement of Cash Flows (Unaudited)  
For the Year Ended March 31

(in thousands of dollars)		
	2016	2015
Operating activities		
Net cost of operations before government funding and transfers	1,874,412	1,898,794
Non-cash items:		
Services provided without charge by other government departments (note 13)	(177,174)	(164,049)
Amortization of tangible capital assets	(76,748)	(56,432)
Net loss on disposal of tangible capital assets	(1,155)	(1,222)
Adjustments to tangible capital assets	177	1,879

Transition payments for implementing salary payments in arrears (note 14)	347	39,207
Variations in Statement of Financial Position:		
(Decrease) increase in accounts receivable and advances	(2,425)	3,165
(Decrease) in prepaid expenses	-	(177)
(Decrease) in inventory	(6,084)	(2,856)
Decrease in liabilities	17,583	141,843
Cash used in operating activities	1,628,933	1,860,152
Capital investing activities		
Acquisitions of tangible capital assets	165,960	181,138
Proceeds from disposal of tangible capital assets	(501)	(456)
Cash used in capital investment activities	165,459	180,682
Net cash provided by Government of Canada	1,794,392	2,040,834

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

Canada Border Services Agency (Agency Activities)  
Notes to the Financial Statements (Unaudited)  
For the Year Ended March 31

1. Authority and objectives

The Canada Border Services Agency (CBSA) provides integrated border services that support national security priorities and facilitate the free flow of people and goods. The *Canada Border Services Agency Act* received royal assent on November 3, 2005. The CBSA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of Public Safety. The CBSA is funded through authorities from the Government of Canada.

The CBSA is responsible for the administration and enforcement of the following acts or portions of these acts: the *Customs Act*, the *Customs Tariff*, the *Excise Act*, the *Excise Tax Act*, the *Citizenship Act*, the *Immigration and Refugee Protection Act*, as well as other acts on behalf of other federal departments and provinces.

For financial reporting purposes, the activities of the CBSA have been divided into two sets of financial statements: Agency Activities and Administered Activities. The Agency Activities financial statements include those operational revenues and expenses which are managed by the CBSA and utilized in operating the



organization. The Administered Activities financial statements report on tax and non-tax revenues, assets and liabilities administered on behalf of the federal, provincial and territorial governments. One reason for the distinction between Agency Activities and Administered Activities is to facilitate the assessment of the administrative efficiency of the CBSA in achieving its mandate.

In delivering efficient and effective border management that contributes to the security and prosperity of Canada, the CBSA operates under the following program activities:

- (a) Admissibility Determination** – Through this program, the CBSA develops, maintains and administers the policies, regulations, procedures and partnerships that enable border services officers to intercept people and goods that are inadmissible to Canada and to process legitimate people and goods seeking entry into Canada within established service standards. In addition, the CBSA develops, maintains and administers the policies, regulations, procedures and partnerships to control the export of goods from Canada.
- (b) Risk Assessment** – This program “pushes the border out” by seeking to identify high risk people, goods and conveyances as early as possible in the travel and trade continuum to prevent inadmissible people and goods from entering Canada..
- (c) Immigration Enforcement** – This program determines whether foreign nationals and permanent residents who are or may be inadmissible to Canada are identified and investigated, detained, monitored and/or removed from Canada
- (d) Revenue and Trade Management** – This program administers international and regional trade agreements and domestic legislation and regulations governing trade in commercial goods. The program ensures that appropriate trade data is collected and that the duties and taxes owed to the Government of Canada are remitted in accordance with Canadian trade laws and import requirements.
- (e) Secure and Trusted Partnerships** – Through this program, the CBSA works closely with clients, other government departments and international border management partners to enhance trade chain and traveler security while providing pre-approved, low-risk travelers and traders with streamlined and efficient border processes.
- (f) Criminal Investigations** – Under this program, the CBSA protects the integrity of border-related legislation and contributes to public safety and Canada’s economic security by investigating and pursuing the prosecution of travelers, importers, exporters and/or other persons who commit criminal offences in contravention of Canada’s border-related legislation.
- (g) Recourse** – This program provides the business community and individuals with an accessible mechanism to seek an impartial review of service-related complaints, program decisions and enforcement actions taken by the CBSA. This program ensures that their decisions are fair, transparent and accurately reflect the CBSA’s policies and the Acts it administers.
- (h) Internal Services** – This program is a group of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are Management and Oversight Services, Communications Services, Legal Services, Human Resources Management Services, Financial Management Services, Information Management Services, Information Technology Services, Real Property Services, Material Services, Acquisition Services, and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not those provided to a specific program.

**2. Summary of significant accounting policies**

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

Significant accounting policies are as follows:

- a) Parliamentary authorities** - The CBSA is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the CBSA do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash

flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the “Expenses” and “Revenues” sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2015-2016 Report on Plans and Priorities*. Planned results are not presented in the “Government funding and transfers” section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the *2015-2016 Report on Plans and Priorities*.

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

**c) Amounts due from or to the CRF** - The amounts 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 CBSA is entitled to draw from the CRF without further authorities to discharge its liabilities.

**d) Revenues** – Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.

Miscellaneous revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place. Revenues that are non-respendable are not available to discharge the CBSA’s liabilities.

While the President of the CBSA is expected to maintain accounting control, the president 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 as a reduction of the entity’s gross revenues.

**e) Expenses** - Expenses are recorded on an accrual basis:

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

Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, legal services and workers’ compensation 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 pension plan administered by the Government of Canada. The CBSA’s contributions to the Plan are charged to expenses in the year incurred and represent the total CBSA obligation to the Plan. The CBSA’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: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

**g) Accounts receivable and advances** - Accounts receivable and advances are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for accounts receivable and advances where recovery is considered uncertain based on the specific identification and aging of receivables.

**h) Contingent liabilities** - Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

**i) Environmental liabilities** - Environmental liabilities consist of estimated costs related to the remediation of contaminated sites.

**Contaminated Sites:**

A liability for remediation of contaminated sites is recognized when all of the following criteria are satisfied: an environmental standard exists, contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected that future economic

benefits will be given up and a reasonable estimate of the amount can be made. The liability reflects the Government’s best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination.

The recorded environmental liabilities are adjusted each year, as required, for inflation, new obligations, changes in managements estimate and actual costs incurred.

If the likelihood of CBSA’s responsibility is not determinable, a contingent liability is disclosed in the notes to the financial statements. If management uncertainty exists, it is also disclosed in the notes to the financial statements.

**j) Inventory** - Inventory consists of uniforms held for future program delivery and not intended for resale. Inventory is valued at cost using the weighted average cost method. Where the service potential is impaired, inventory is valued at the lower of cost or net realizable value.

**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 CBSA does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value.

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

Asset class	Amortization period
Buildings	30 years
Works and infrastructure	40 years
Machinery and equipment	10 years
Informatics hardware	5 years
Informatics software	
Purchased software	3 years
In-house developed software	7 years
Vehicles	
Motor vehicles	5 years
Ships and boats	10 years
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset type

**l) Measurement uncertainty** - The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities,

environmental liabilities, the liability for employee future benefits, the allowance for doubtful accounts and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary Authorities

The CBSA receives most of its funding through annual parliamentary authorities. 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 authorities in prior, current or future years. Accordingly, the CBSA 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 authorities used

<i>(in thousands of dollars)</i>		
	2016	2015
Net cost of operations before government funding and transfers	1,874,412	1,898,794
Adjustments for items affecting net cost of operations but not affecting authorities:		
Services provided without charge by other government departments	(177,174)	(164,049)
Amortization of tangible capital assets	(76,748)	(56,432)
Refund and adjustments to prior years' expenditures	5,272	8,145
Net loss on disposal of tangible capital assets	(1,155)	(1,222)
Decrease in employee future benefits	4,416	100,384
Decrease (increase) in vacation pay and compensatory leave	6,385	(1,746)
Decrease (increase) in environmental liabilities	1,296	(160)
Decrease (increase) in claims and litigation	150	(165)
(Increase) in accrued liabilities not charged to authorities	(1,921)	(2,116)
(Increase) decrease in bad debt expense	(682)	28
Other	2,320	2,827
Total items affecting net cost of operations but not affecting authorities	(237,841)	(114,506)

Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets	165,960	181,138
Proceeds from disposal of tangible capital assets	(501)	(456)
(Decrease) in inventory	(6,084)	(2,856)
Transition payments for implementing salary payments in arrears	347	39,207
(Decrease) in prepaid expenses	-	(177)
Total items not affecting net cost of operations but affecting authorities	159,722	216,856
Current year authorities used	1,796,293	2,001,144

(b) Authorities provided and used

(in thousands of dollars)		
	2016	2015
Authorities provided:		
Vote 1 - Operating expenditures	1,512,906	1,694,361
Vote 5 - Capital expenditures	251,431	277,532
Statutory amounts	187,465	198,255
Less:		
Authorities available for future years	(65,136)	(76,120)
Lapsed: Operating	(23,837)	(17,624)
Lapsed: Capital	(66,536)	(75,260)
Current year authorities used	1,796,293	(2,001,144)

4. Accounts Payable and Accrued Liabilities

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

<i>(in thousands of dollars)</i>		
	2016	2015
Accounts payable - Other government departments and agencies	23,192	36,592
Accounts payable - External parties	46,617	51,097
Total accounts payable	69,809	87,689
Accrued liabilities	97,396	85,537
Total accounts payable and accrued liabilities	167,205	173,226

5. Environmental Liabilities

Remediation of contaminated sites

The Government has developed a “Federal Approach to Contaminated Sites”, which incorporates a risk-based approach to the management of contaminated sites. Under this approach the Government has inventoried the contaminated sites on federal lands that have been identified, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aides in the identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to the environment and human health.

The CBSA has identified 5 sites (6 sites in 2014-2015) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the CBSA has assessed 3 sites (2 sites in 2014-2015) where action is possible for which a liability of \$1,184,000 (\$2,480,000 in 2014-2015) has been recorded. This liability estimate has been determined after the sites are assessed and is based on scientific/engineering contractors reviewing the results of site assessments, and proposing possible remediation solutions.

This represents management's best estimate of the amount required to complete the remediation of the sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date.

2 sites are not considered a priority for action because information indicates there is likely no significant environmental impact or human health threats and there is likely no need for action unless new information becomes available indicating greater concerns, in which case, the site will be re-examined.

The following table presents the total estimated amounts of these liabilities by nature and source as at March 31, 2016, and March 31, 2015:

Nature and Source	Number of Sites 2016	Estimated Liability 2016	Number of Sites 2015	Estimated Liability 2015
Fuel Related Practices <sup>(1)</sup>	2	1,027,000	2	2,480,000

Landfill / Waste Sites <sup>(2)</sup>	1	157,000	-	-
Totals	3	1,184,000	2	2,480,000
1. Contamination primarily associated with fuel storage and handling, e.g., accidental spills related to fuel storage tanks or former fuel handling practices, e.g. petroleum hydrocarbons, polyaromatic hydrocarbons and BTEX.				
2. Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, other organic contaminants, etc.				

6. Deposit Accounts

The Immigration guarantee fund serves to record amounts collected and held, pending final disposition either by refund to the original depositor or forfeiture to the Crown, pursuant to the provisions of the *Immigration and Refugee Protection Act*.

The General security deposits account serves to record general security deposits from transportation companies in accordance with the provisions of the *Immigration and Refugee Protection Act*.

The following table presents details on the deposit accounts:

(in thousands of dollars)					
	Opening Balance	Deposits	Refunds	Forfeitures	Closing Balance
Immigration guarantee fund	21,092	7,046	(6,017)	(744)	21,377
General security deposits	6,219	522	(122)	-	6,619
Total deposit accounts	27,311	7,568	(6,139)	(744)	27,996

7. Employee Future Benefits

(a) Pension benefits

The CBSA's employees participate in the public service pension plan (the “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 they are indexed to inflation.

Both the employees and the CBSA contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to *Economic Action Plan 2012*, employee contributors have been divided into two groups - Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2015-2016 expense amounts to \$128,762,000 (\$135,006,000 in 2014-2015). For Group 1 members, the expense represents approximately 1.25 times (1.41 times in 2014-2015) the employee contributions and, for Group 2 members, approximately 1.24 times (1.39 times in 2014-2015) the employee contributions.

The CBSA'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.

**(b) Severance benefits**

The CBSA 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 authorities.

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

<i>(in thousands of dollars)</i>		
	2016	2015
Accrued benefit obligation, beginning of year	82,894	183,278
Expense for the year	4,193	67,847
Benefits paid during the year	(8,609)	(168,231)
Accrued benefit obligation, end of year	78,478	82,894

**8. Accounts Receivable and Advances**

The following table presents details of the accounts receivable and advances:

<i>(in thousands of dollars)</i>		
	2016	2015
Receivables - Other government departments and agencies	12,716	15,218
Receivables - External parties	3,910	4,492
Employee advances and other receivables	2,027	1,760
	18,653	21,470
Allowance for doubtful accounts on external receivables	(2,689)	(2,876)



Gross accounts receivable	15,964	18,594
Accounts receivable held on behalf of Government	(2,004)	(2,209)
Net accounts receivable	13,960	16,385

9. Inventory

The following table presents details of the inventory, measured at cost using the weighted average cost method.

(in thousands of dollars)		
	2016	2015
Uniforms	3,703	9,787
Total	3,703	9,787

10. Tangible Capital Assets

The following table presents details of the tangible capital assets:

(in thousands of dollars)												
	Cost					Accumulated amortization					2016	2015
Capital asset class	Opening Balance	Acquisitions	Adjustments(1)	Disposals and write-offs	Closing balance	Opening Balance	Amortization	Adjustments(1)	Disposals and write-offs	Closing balance	Net book value	Net book value
Land	4,649	-	-	-	4,649	-	-	-	-	-	4,649	4,649
Buildings	416,601	681	26,064	1,805	441,541	139,257	13,625	-	655	152,227	289,314	277,344
Leasehold improvements	35,729	-	-	4,069	31,660	30,604	2,102	-	3,815	28,891	2,769	5,125
Works and infrastructure	5,150	-	-	-	5,150	1,942	238	-	-	2,180	2,970	3,208

<b>Machinery and equipment</b>	116,058	10,738	171	14,545	112,422	66,198	7,997	60	14,342	59,913	52,509	49,860
<b>Informatics hardware</b>	51,137	1,721	105	906	52,057	40,520	3,076	-	907	42,689	9,368	10,617
<b>Informatics software - in-house developed</b>	283,674	-	175,552	-	459,226	205,832	43,667	1,621	-	251,120	208,106	77,842
<b>Informatics software - purchased</b>	4,066	-	1,631	-	5,697	2,312	2,848	-	-	5,160	537	1,754
<b>Motor vehicles</b>	31,189	3,462	42	2,888	31,805	23,221	3,164	11	2,867	23,529	8,276	7,968
<b>Ships and boats</b>	708	39	-	-	747	581	31	-	-	612	135	127
<b>Assets under construction</b>	424,851	149,319	(201,696)	29	372,445	-	-	-	-	-	372,445	424,851
<b>Total</b>	1,373,812	165,960	1,869	24,242	1,517,399	510,467	76,748	1,692	22,586	566,321	951,078	863,345

(1) Adjustments include assets under construction of \$201,696,000 that were transferred to the other categories upon completion of the assets.

11. Contractual Obligations

The nature of the CBSA’s activities can result in some large multi-year contracts and obligations whereby the CBSA will be obligated to make future payments in order to carry out its programs or when services and goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>						
	2017	2018	2019	2020	2021 and there-after	Total
Purchase contracts	127,209	21,588	7,943	734	52	157,526

12. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown.

Claims and litigation

Forty-five (45) (46 in 2014-2015) general litigation claims have been made against the CBSA in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable.

The CBSA has recorded an allowance of \$665,000 (\$815,000 in 2014-2015) for claims and litigation where it is likely that there will be future payment and a reasonable estimate of the loss can be made. Claims and litigation for which the outcome is not determinable and a reasonable estimate can be made by management amount to \$880,000 (\$1,030,000 in 2014-2015).

13. Related Party Transactions

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

(a) Common services provided without charge by other government departments

During the year, the CBSA received services without charge from certain common service organizations, related to accommodation, legal services, the employer's contribution to the health and dental insurance plans and workers' compensation coverage. These services without charge have been recorded in the CBSA's Statement of Operations and Departmental Net Financial Position as follows:

<i>(in thousands of dollars)</i>		
	2016	2015
Employer's contribution to the health and dental insurance plans	99,639	90,898
Accommodation	67,892	61,550
Legal services	9,330	11,262
Workers' compensation coverage	313	339
Total	177,174	164,049

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as payroll and cheque issuance services provided by Public Works and Government Services Canada, audit services provided by the Office of the Auditor General, and telecommunication and network services provided by Shared Services Canada are not included as an expense in the CBSA's Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties

<i>(in thousands of dollars)</i>		
	2016	2015

Expenses - other government departments and agencies	366,253	371,476
Revenues - other government departments and agencies	624	597

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

14. Transfer of the transition payments for implementing salary payments in arrears

The Government of Canada implemented salary payments in arrears in 2014-2015. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of the Department. However, it did result in the use of additional spending authorities by the Department. Prior to year-end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Services and Procurement Canada, who is responsible for the administration of the Government pay system.

(in thousands of dollars)		
	2016	2015
Assets:		
Transfer of Accounts Receivable to Public Works and Government Services	347	39,207
Adjustment to the departmental net financial position	347	39,207

15. Segmented Information

Presentation by segment is based on the CBSA’s program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2.

The major categories of revenue are described below.

Immigration and Refugee Protection Regulations administration fees

The administration fee amounts are set out in section 280 of the *Immigration and Refugee Protection Regulations*. Transporters are required to pay administration fees to partially defray the cost of processing certain categories of inadmissible foreign nationals conveyed to Canada. The fees apply when a transporter carries a foreign national.

Inspection fees for food, plant and animal products

Inspection fees for food, plant and animal products are set out in the Canadian Food Inspection Agency (CFIA) Fees Notice pursuant to section 24 of the *Canadian Food Inspection Agency Act*. The fees are for passenger and initial import inspection services performed at airports and other Canadian border points of entry into Canada.

NEXUS fees for pre-approved and frequent travellers

NEXUS fees are for processing applications related to a joint initiative between the CBSA and the United States Customs and Border Protection that simplifies border crossings for its members and enhances border security. Authority to collect these fees is pursuant to section 24(1) *of the Presentation of Persons (2003) Regulations*. The NEXUS fees are a non-refundable processing and application fee for becoming a member of this program.

**Free and Secure Trade (FAST) fees for pre-approved and frequent importers**

FAST fees are for processing applications related to a joint initiative between the CBSA and United States Customs and Border Protection that enhances border and trade chain security while making cross-border commercial shipments simpler and subject to fewer delays. Authority to collect these fees is pursuant to section 24(1) *of the Presentation of Persons (2003) Regulations*.

**Detector dog training services**

The CBSA offers detector dog services to other enforcement agencies and jurisdictions within Canada and abroad, such as police forces in municipal, provincial and federal correctional authorities and foreign countries.

The following table presents the expenses incurred and the revenues generated for the main programs, by major object of expense and by major type of revenues.

<i>(in thousands of dollars)</i>										
	Admissibility Determination	Internal Services	Risk Assessment	Immigration Enforcement	Revenue and Trade Management	Secure and Trusted Partnership	Criminal Investigations	Recourse	2016 Total	2015 Total
Operating Expenses										
Salaries and employee future benefits	812,047	201,695	127,293	102,377	78,352	39,884	30,792	11,156	1,403,596	1,465,999
Professional and special services	42,584	93,726	29,389	51,761	5,735	807	618	323	224,943	215,279
Amortization of tangible capital assets	5,014	68,854	155	1,513	1,100	28	84	-	76,748	56,432
Rental of buildings and machinery	42,484	13,642	6,239	5,108	3,863	1,973	1,515	542	75,366	68,808
Transportation and telecommunication	22,426	5,493	3,183	10,398	976	348	361	48	43,233	47,564
Machinery and equipment	8,045	8,206	9,563	660	921	291	620	16	28,322	23,011
Repairs and maintenance	9,853	7,991	1,207	257	61	64	105	-	19,538	16,686

Other	5,052	7,554	39	2,607	24	59	3	1	15,339	12,729
Utilities, materials and supplies	7,873	2,550	650	921	419	146	305	31	12,895	16,048
Bad debts	21	8	1	61	320	270	-	1	682	(28)
Court awards and other settlements	90	164	4	22	20	-	17	19	336	2,277
Provision for contingent liabilities	-	(1,446)	-	-	-	-	-	-	(1,446)	325
Refunds and adjustments to prior years' expenditures	(524)	(2,630)	(79)	(1,897)	(72)	(4)	(63)	(3)	(5,272)	(8,145)
Total operating expenses	954,965	405,807	177,644	173,788	91,719	43,866	34,357	12,134	1,894,280	1,916,985
Revenues										
Sales of goods and services	462	-	-	1,122	10,902	9,186	-	-	21,672	19,634
Miscellaneous Revenues	254	286	18	940	4	-	9	21	1,532	1,305
Revenues earned on behalf of Government	(103)	(41)	(3)	(296)	(1,568)	(1,321)	(1)	(3)	(3,336)	(2,748)
Total revenues	613	245	15	1,766	9,338	7,865	8	18	19,868	18,191
Net cost of operations before government funding and transfers	954,352	405,562	177,629	172,022	82,381	36,001	34,349	12,116	1,874,412	1,898,794

16. Comparative information

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

Financial Statements - Administered Activities

Statement of Administered Assets and Liabilities (Unaudited)  
As at March 31

<i>(in thousands of dollars)</i>		
	2016	2015 Restated (note 10)
Administered assets		
Cash on hand	2,312,492	2,165,789
Accounts receivable - other government departments and agencies	6,623	3,229
Accounts receivable - external parties (note 3)	881,625	1,054,010
Total	3,200,740	3,223,028
Administered liabilities		
Accounts payable - other government departments and agencies	228,762	216,834
Accounts payable - provinces (note 4)	10,807	10,956
Accounts payable - external parties	284	1,964
Deposit accounts (note 5)	12,757	10,619
Sub-total	252,610	240,373
Net amount due to the Consolidated Revenue Fund of the Government of Canada (note 6)	2,948,130	2,982,655
Total	3,200,740	3,223,028

Contingent liabilities (note 7)  
The accompanying notes form an integral part of these financial statements.

Linda Lizotte-MacPherson, President  
Ottawa, Canada  
August 16, 2016

**Christine Walker, Chief Financial Officer**  
*Ottawa, Canada*  
*August 16, 2016*

**Statement of Administered Revenues (Unaudited)**  
**For the Year Ended March 31**

<i>(in thousands of dollars)</i>		
	2016	2015
Administered revenues		
Tax revenues		
Excise taxes (note 8)	23,796,760	22,990,850
Customs import duties	5,371,603	4,581,247
Excise duties	1,417,998	1,473,152
Total	30,586,361	29,045,249
Non-tax revenues		
Interest, penalties and fines	12,888	19,686
Seized property	6,626	7,415
Sale of goods and services	707	1,988
Other	293	615
Total	20,514	29,704
Total administered revenues	30,606,875	29,074,953



<b>Bad debt expense</b>	(415)	50,664
<b>Net administered revenues</b>	<b>30,607,290</b>	<b>29,024,289</b>

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

**Statement of Administered Cash Flows (Unaudited)**  
**For the Year Ended March 31**

<i>(in thousands of dollars)</i>		
	2016	2015
<b>Net administered revenues</b>	<b>30,607,290</b>	<b>29,024,289</b>
<b>Variations in administered assets and liabilities:</b>		
<b>(Increase) decrease in cash on hand</b>	(146,703)	(195,916)
<b>(Increase) decrease in accounts receivable - other government departments and agencies</b>	(3,394)	4,525
<b>(Increase) decrease in accounts receivable - external parties</b>	172,385	(52,333)
<b>Increase (decrease) in accounts payable - other government departments and agencies</b>	11,928	5,109
<b>Increase (decrease) in accounts payable - provinces</b>	(149)	(111)
<b>Increase (decrease) in accounts payable - external parties</b>	(1,680)	1,211
<b>Increase (decrease) in deposit accounts</b>	2,138	590
<b>Net cash deposited in the Consolidated Revenue Fund of the Government of Canada</b>	<b>30,641,815</b>	<b>28,787,364</b>
<b>Consisting of:</b>		
<b>Deposits to the Consolidated Revenue Fund</b>	31,221,775	29,458,860
<b>Payments and refunds from the Consolidated Revenue Fund</b>	(579,960)	(671,496)
<b>Net cash deposited in the Consolidated Revenue Fund of the Government of Canada</b>	<b>30,641,815</b>	<b>28,787,364</b>

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

# Notes to the Financial Statements (Unaudited) For the Year Ended March 31

## 1. Authority and objectives

The Canada Border Services Agency (CBSA) provides integrated border services that support national security priorities and facilitate the free flow of people and goods, including food, plants, animals and related products across the border. The *Canada Border Services Agency Act* received royal assent on November 3, 2005. The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of Public Safety. The Agency is funded through authorities from the Government of Canada.

The Agency is responsible for the administration and enforcement of the following acts or portions of these acts: the *Customs Act*, the *Customs Tariff*, the *Excise Act*, the *Excise Tax Act*, the *Citizenship Act*, the *Immigration and Refugee Protection Act*, as well as other acts on behalf of other federal departments and provinces.

The Agency Administered Activities financial statements report on assets, liabilities, tax and non-tax revenues administered on behalf of the federal, provincial and territorial governments.

## 2. Summary of Significant Accounting Policies

The purpose of these Agency Administered Activities financial statements is to present information about revenues, expense, assets and liabilities that the Agency administers on behalf of the federal, provincial and territorial governments. The Agency reports in accordance with accounting principles that are consistent with those applied in the preparation of the financial statements of the Government of Canada.

A summary of significant accounting policies are as follows:

### (a) Cash on hand

Cash on hand includes amounts received in Agency offices or by Agency agents as at March 31 but not yet deposited to the credit of the Consolidated Revenue Fund (CRF) of the Government of Canada.

### (b) Accounts receivable

Accounts receivable represent taxes and duties and other revenues not yet collected. All receivables are stated at amounts ultimately expected to be realized. A provision is made for doubtful accounts where recovery is considered uncertain.

### (c) Accounts payable – provinces

Accounts payable – provinces represents amounts in accordance with memorandums of understanding (MOUs) between the provinces and the Agency, whereby provincial sales, alcohol and tobacco taxes are collected and remitted to the provinces.

### (d) Accounts payable – external parties

Accounts payable – external parties represent refunds, and related interest, to importers resulting from reassessments completed after March 31 for excise taxes, custom import duties and excise duties related to current or prior year imports.

### (e) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future

event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

**(f) Tax revenues**

The determination of the Agency's tax revenues is based on the taxes and duties assessed that relate to goods authorized by the Agency to enter into Canada during the fiscal year that ends March 31; therefore, domestic taxes are not reflected in these statements. These revenues are recognized at the time the goods are released.

- Excise taxes: Consists of the goods and services tax (GST) and the harmonized sales tax (HST) assessed on imports, net of the GST remission order to the Canada Revenue Agency (CRA) and the provincial portion of the HST. The input tax credits accorded for GST and HST paid on importations are not reflected in these statements as the CRA is responsible for their administration. Excise taxes are also assessed on gasoline and other imports.
- Customs import duties: Consists of import duties assessed on imports. They are reported net of refunds, rebates and drawbacks.
- Excise duties: Consists of tobacco, beer and liquor duties assessed on imports. They are reported net of refunds, rebates and drawbacks.

The Canadian customs and tax systems are predicated on self-assessment where importers are expected to understand the laws and comply with them. This has an impact on the completeness of duty and tax revenues when importers fail to comply with laws. The Agency has implemented systems and controls in order to detect and correct situations where importers are not complying with the various acts it administers. These systems and controls include performing audits of importer records where determined necessary by the Agency. Such procedures cannot be expected to identify all undeclared or incorrectly declared importations or other cases of non-compliance. The Agency does not estimate the amount of unreported duties and taxes. However, such amounts are included in revenues when identified during reassessment.

**(g) Non-tax revenues**

Non-tax revenues consists of items such as fees, penalties, interest and fines and are recognized in the period in which the underlying transaction or event occurred that gave rise to the non-tax revenue.

**(h) Allowance for doubtful accounts**

The allowance for doubtful accounts reflects management's best estimate of the collectability of accounts receivable, including the related interest and penalties. The allowance for doubtful accounts is composed of two parts, each of which is reviewed on an annual basis. A portion of the allowance is based on the collectability status of the accounts and the other portion is based on accounts under appeal.

**(i) Tax remission order**

The tax remission order provides for a remission of the GST and HST paid or payable by departments of the federal government on their taxable purchases of goods and services. The remission does not affect the net GST and HST ultimately retained by the government.

**(j) 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 expense 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 item where estimates are used is for establishing the allowance for doubtful accounts. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Accounts Receivable – External Parties

Accounts receivable – external parties represent the GST and HST, custom import duties, excise duties, penalties and interest due to the Receiver General for Canada as a result of importations into Canada.

The following table presents details of accounts receivable – external parties:

<i>(in thousands of dollars)</i>		
	2016	2015 Restated (note 10)
Accounts receivable - external parties	1,447,663	1,621,767
Allowance for doubtful accounts	(566,038)	(567,757)
Accounts receivable - external parties	881,625	1,054,010

4. Accounts Payable - Provinces

The following table presents details of provincial sales, alcohol and tobacco taxes collected and remitted to the provinces:

<i>(in thousands of dollars)</i>		
	2016	2015
Opening balance	10,956	11,067
Receipts from importers	72,915	77,216
Refunds to importers	(421)	(484)
Payments to provinces	(72,643)	(76,843)
Closing balance	10,807	10,956

5. Deposit Accounts

The deposit accounts were established to record cash and securities received to guarantee payment of excise taxes and customs duties on imported goods pursuant to the *Excise Tax Act* and the *Customs Act*.

The following table presents details on the deposit accounts:

<i>(in thousands of dollars)</i>		
----------------------------------	--	--

	2016	2015
Opening balance	10,619	10,029
Receipts	4,744	3,296
Payments	(2,606)	(2,706)
Closing balance	12,757	10,619

6. Net amount due to the Consolidated Revenue Fund of the Government of Canada

The net amount due to the CRF of the Government of Canada is the difference between administered assets held and collectible and administered liabilities payable by the Agency out of the CRF.

The change in the net amount due to the CRF during the fiscal year is presented in the table below:

<i>(in thousands of dollars)</i>		
	2016	2015 Restated (note 10)
Opening balance	2,982,655	3,197,193
Retroactive adjustment (note 10)	0	(451,463)
Opening Balance Restated	2,982,655	2,745,730
Net administered revenues	30,607,290	29,024,289
Net cash deposited in the Consolidated Revenue Fund	(30,641,815)	(28,787,364)
Closing balance	2,948,130	2,982,655

7. Contingent Liabilities

Claims have been made against the Agency in the normal course of operations. These claims represent appeals for previously assessed GST and HST, customs duties and excise duties. While the total amount claimed in these actions amount to approximately \$51 million as at March 31, 2016 (\$41 million as at March 31, 2015), their outcomes are not determinable and as a result no liability has been recorded in the financial statements (nil as at March 31, 2015).

8. Excise Taxes

The following table presents details of the excise tax revenues:

<i>(in thousands of dollars)</i>		
	2016	2015
GST and HST	23,917,015	23,107,788
Tax remission order	(40,965)	(31,059)
Transfer of HST to Provinces	(176,277)	(174,128)
Other excise taxes	96,987	88,249
Excise taxes	23,796,760	22,990,850

9. Related Party Transactions

The Agency is related, as a result of common ownership, to all Federal Government departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business and on normal trade terms. The Agency has an agreement with the CRA related to the provision of collection services under Part V.I of the *Customs Act* for which the CRA is funded through appropriations from the Government of Canada.

10. Restatement of Comparative Information

During fiscal year 2015-2016, the Agency implemented a new Accounts Receivable Ledger (ARL) as part of the first phase of the CBSA Assessment and Revenue Management project. The ARL captures all of the commercial accounts receivable balances.

After migrating existing Revenue Ledger accounts receivable balances to ARL, residual balances in the former receivable accounts were discovered. These amounts mainly reflect the overstatement of balances of accounts receivables since the creation of the Agency Revenue Ledger in 2007. The Agency performed a retroactive adjustment increasing the allowance for doubtful accounts by \$451 million and decreasing the net amount due to the CRF of the Government of Canada as the overstatement of accounts receivable was not a result of an economic event of fiscal year 2015-2016 but occurred in prior years.

Consequently, the comparative financial statements for the year ended March 31, 2015 have been restated. The effects of these adjustments are presented in the table below.

<i>(in thousands of dollars)</i>			
	2015 As Previously Stated	Effect of Change	2015 Restated
Statement of Administered Assets and Liabilities:			
Accounts receivable - external parties (note 3)	1,505,473	(451,463)	1,054,010
Total administered assets	3,674,491	(451,463)	3,223,028

Net amount due to the Consolidated Revenue Fund of the Government of Canada (note 6)	3,434,118	(451,463)	2,982,655
Total administered liabilities and net amount due to the Consolidated Revenue Fund of the Government of Canada	3,674,491	(451,463)	3,223,028
Note 3: Accounts Receivable - External Parties:			
Allowance for doubtful accounts	(116,294)	(451,463)	(567,757)
Total accounts receivable - external parties	1,505,473	(451,463)	1,054,010
Note 6: Net amount due to the Consolidated Revenue Fund of the Government of Canada:			
Retroactive adjustment (note 10)	0	(451,463)	(451,463)
Opening Balance Restated	3,197,193	(451,463)	2,745,730
Closing Balance	3,434,118	(451,463)	2,982,655

# Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting Fiscal Year 2015-2016

## 1. Introduction

This document provides summary information on the measures taken by the Canada Boarder Services Agency (CBSA) to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management and assessment results and related action plans.

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

## 2. Departmental system of internal control over financial reporting

### 2.1 Internal Control Management

The CBSA has a well-established governance and accountability structure to support its assessment efforts and the oversight of its system of internal control. The Agency’s internal control management framework, approved by the President and the Comptrollership Branch Management Committee, is in place which includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management including roles and responsibilities for senior managers in their areas of responsibility for control management;
- Values and ethics;
- On-going communication and training on statutory requirements, policies, and procedures for sound financial management and control; and
- Monitoring and annual risk-based updates of internal controls over financial reporting;
- Periodic reporting to senior management, at least semi-annually, on internal controls management, including the provision of assessment results and action plan to the President and the Agency's senior management and, when necessary or as applicable, the Departmental Audit Committee (DAC).

The Departmental Audit Committee provides advice to the President of the CBSA on the adequacy and functioning of the Agency's risk management, internal control and governance frameworks and processes.

## 2.2 Service Arrangements relevant to financial statements

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

### Common Arrangements:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of goods and services, as per the Department's Delegation of Authority and provides accommodation services;
- Treasury Board Secretariat provides CBSA with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to CBSA; and
- Shared Services Canada (SSC) provides to CBSA information technology (IT) infrastructure services and related IT general controls (ITGCs) in the areas of email, data centre and network services. Specific Arrangements:
- Pursuant to ongoing arrangements, the Canada Revenue Agency (CRA) provides information technology services, including associated internal controls ongoing effectiveness testing for ITGCs and the related remediation on behalf of CBSA. CRA also provides account receivable collection services for customs duties, taxes, fees, penalties, and other amounts owing under the Customs Act, Customs Tariff, Excise Tax Act, Excise Act 2001, and related regulations.

## 3. CBSA assessment results during fiscal year 2015-2016

The key new internal control frameworks accomplished and the changes to the ongoing monitoring of the current year's activities are summarized below.

### Account Receivable Ledger

A number of Internal Control Frameworks were developed for the new Account Receivable Ledger system and related nine key revenue sub-processes and master data process.

### Compensation

Compensation internal control monitoring was deferred due to the introduction of the new payroll system "Phoenix".

### Entity Level Controls

Entity Level Controls testing was deferred to accommodate for the alignment efforts with the 2013 COSO Internal Control Framework.

### Trade Program Revenue Refunds



Work in partnership with the Trade Program management of the Revenue Adjustment for Commercial Refund and Casual Refund to address internal control gaps of the revenue adjustment processes and overall development of a comprehensive management control framework.

## 4. Departmental action plan

### 4.1 Progress during fiscal year 2015-2016

#### Delegation of Financial Authority

In consideration of the “Delegation of Financial Authority” as a key element to ensure effective financial governance and efficient management of operations, CBSA had revamped its Delegation of Financial Signing Authority (DFSA) and developed compensating controls to mitigate financial delegation risks.

#### Acquisition cards

Tests performed on acquisition cards demonstrated key controls effectiveness to ensure compliance with CBSA and Treasury Board policies, directives and the sections 34 (Approval) of the Financial Administration Act (FAA). It was noted that provision of supporting documentation by the CBSA managers in order to demonstrate the FAA section 32 (commitment Control Authority) requires some improvement. Remediation activities have been initiated and ongoing monitoring of acquisition cards will be maintained as part of CBSA continuous account verification quality assurance strategy.

#### Hospitality and Travel

Tests performed on Hospitality and Travel demonstrated key controls effectiveness to ensure compliance with CBSA and Treasury Board policies and directives. No evidence of material control failures where remediation would be required has been identified.

#### Information Technology General Controls

The CRA is responsible for the Information Technology General Controls (ITGC) ongoing effectiveness testing and related remediation on behalf of the CBSA. As a result, of the ongoing review of IT General (key) Controls that relate to the systems’ operations, security, implementation and maintenance, no significant design control effectiveness deficiencies have been identified.

Shared Services Canada successfully completed Entity Level Controls for IT Infrastructure Services Framework and the related design effectiveness testing. It also successfully completed the ITGC for IT Infrastructure Services Framework.

### 4.2 Action plan for the next fiscal year and subsequent years

The CBSA’s rotational on-going monitoring plan over the next three years, based on an annual validation of the high risk processes and controls and related adjustments to the on-going monitoring plan as required, is shown in the following table:

Rotational On-going Monitoring Plan for Internal Control over Financial Reporting			
Key control areas	Operating Effectiveness Testing Rotation		
	Fiscal Year 2016-2017	Fiscal Year 2017-2018	Fiscal Year 2018-2019
Entity level controls		<input type="checkbox"/>	<input type="checkbox"/>

Information Technology General Controls (ITGCs)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Revenue Adjustments (Commercial Refund)		<input type="checkbox"/>	<input type="checkbox"/>
Revenues and Account Receivable Ledger (ARL) for excise tax, custom imports duties and excise duties		<input type="checkbox"/>	<input type="checkbox"/>
Capital Assets		<input type="checkbox"/>	
Compensation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Budgeting and Forecasting		<input type="checkbox"/>	
Confidential Human Source Program		<input type="checkbox"/>	
Financial Statement, Public Accounts and Financial Close and Reporting processes		<input type="checkbox"/>	
Procurement, Payable and Payments	<input type="checkbox"/>	<input type="checkbox"/>	
Non Tax Revenues and Account Receivable Ledger (ARL) for spendable and non-spendable		<input type="checkbox"/>	<input type="checkbox"/>
Memorandum to Cabinet (MC) and Treasury Board (TB) Submissions			<input type="checkbox"/>
Future-Oriented Statement of Operations			<input type="checkbox"/>
Quarterly Financial Report			<input type="checkbox"/>
Section 6 of the Customs Act			<input type="checkbox"/>

To ensure that the documented processes are complete and accurate and that key internal controls are in place and effective, CBSA will conduct the following in 2016-17:

- Update Entity Level Controls (ELC) to align with COSO 2013. Existing system of internal control will be evaluated to ensure that they reflect the elements of the COSO 2013 framework and to update existing documentation to demonstrate compliance with the framework 17 principles and related points of focus.
- Update Delegation of Financial Signing Authorities, Travel, Capital Assets, PAYE, Interdepartmental Settlements, the budgeting allocation and forecasting as well as the Compensation financial control frameworks in order to reflect the revamped processes and related IT new systems functionalities.
- Continue collaboration with the Trade Program management of the Revenue Adjustment for Commercial Refund and Casual Refund to address internal control gaps of revenue adjustment processes and overall development of a comprehensive management control framework.
- In collaboration with the process owner, ensure that the reported gaps related to the nine (9) CBSA Account receivable ledger financial control frameworks are addressed and therefore proceed with validation of the key controls existence.
- Test the key internal controls in the PAYE processes and compensation.

**Account verification Quality Assurance strategy:** As part of its ongoing risk based account verification activities, the CBSA is proceeding with key control

testing of the following key processes: Interdepartmental Settlements, Acquisition Cards, and Hospitality/events /Travel. All high risk transactions are subject to a full review before they are processed whereas sampling plan and methodology is used to extract and review samples of medium and low risk transactions. Any significant deficiencies observed are reported on a continuing basis to the CBSA senior management and the CFO and are taken into consideration in the annual assessment of the effectiveness of the CBSA system of internal control.

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