



Environment and
Climate Change Canada

Environnement et
Changement climatique Canada



**DEPARTMENTAL
FINANCIAL STATEMENTS
(unaudited)
2015-2016**

Statement of Management Responsibility Including Internal Control Over Financial Reporting 2015-2016

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 Environment and Climate Change Canada. 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 Environment and Climate Change Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Environment and Climate Change Canada'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 legislations, regulations, authorities and policies.

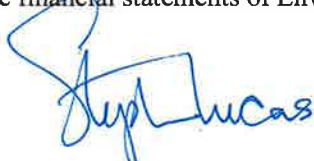
Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Environment and Climate Change Canada 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 ongoing 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 Environment and Climate Change Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Environment and Climate Change Canada's operations, and by the External Audit Advisory Committee, which reviews and provides guidance to the Deputy Minister for maintaining adequate control systems and financial reporting, and which recommends the financial statements to the Deputy Minister of Environment and Climate Change Canada.

The financial statements of Environment and Climate Change Canada have not been audited.



Stephen Lucas
Senior Associate Deputy Minister

Gatineau, Canada
Date: **AUG 29 2016**



Carol Najm
Chief Financial Officer

Gatineau, Canada
Date: **AUG 25 2016**

Statement of Financial Position (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

As at March 31

(in thousands of dollars)

	2016	2015
Liabilities		
3 Accounts payable and accrued liabilities (Note 4)	\$140,301	\$140,231
4 Vacation pay and compensatory leave	29,904	29,904
5 Deferred revenue (Note 5)	7,116	7,945
6 Lease obligation for tangible capital assets (Note 6)	10,450	11,123
7 Employee future benefits (Note 7)	36,426	36,111
8 Environmental liabilities (Note 8)	141,418	122,609
9 Other liabilities	892	449
Total liabilities	366,507	348,372
10 Financial assets		
Due from Consolidated Revenue Fund	131,482	133,595
Accounts receivable and advances (Note 9)	21,526	16,821
Total gross financial assets	153,008	150,416
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(4,551)	(3,309)
Total net financial assets	148,457	147,107
DEPARTMENTAL NET DEBT		
	218,050	201,265
Non-financial assets		
11 Prepaid expenses	1,077	1,164
12 Inventory (Note 10)	15,350	9,257
13 Tangible capital assets (Note 11)	375,681	361,863
Total non-financial assets	392,108	372,284
DEPARTMENTAL NET FINANCIAL POSITION		
	\$174,058	\$171,019
15 Contractual obligations (Note 12)		
14 Contingent liabilities (Note 13)		

The accompanying notes are an integral part of these financial statements



Stephen Lucas
 Senior Associate Deputy Minister

Gatineau, Canada

Date:

AUG 2 9 2016



Carol Najm
 Chief Financial Officer

Gatineau, Canada

Date:

AUG 2 5 2016

Statement of Operations and Departmental Net Financial Position (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

For the year ended March 31

(in thousands of dollars)

	Planned results (Note 2a)		
	2016	2016	2015
Expenses			
Conservation of Canada's Natural Environment	\$380,327	\$389,821	\$392,610
Weather Information	255,738	240,565	278,474
Threats from Pollution Minimized	283,066	289,281	291,533
Internal Services	214,033	212,724	191,907
Total expenses	1,133,164	1,132,391	1,154,524
Revenues			
Sales of goods and services	88,649	78,846	85,932
Other revenues	13,917	16,690	30,483
Revenues earned on behalf of Government	(13,970)	(10,729)	(26,128)
Total revenues	88,596	84,807	90,287
Net cost of operations before government funding and transfers	1,044,568	1,047,584	1,064,237
Government funding and transfers			
Net cash provided by Government		944,947	955,945
Change in due from Consolidated Revenue Fund		(2,113)	21,526
Services provided without charge by other government departments (Note 14)		108,113	101,635
Transfer of the transition payments for implementing salary payments in arrears (Note 15)		(156)	(19,283)
Transfer of assets and liabilities from (to) other government departments (Note 16)		(168)	(6)
Net cost of operations after government funding and transfers		(3,039)	4,420
Departmental net financial position - Beginning of year		171,019	175,439
Departmental net financial position - End of year		\$174,058	\$171,019

Segmented information (Note 17)

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

Statement of Change in Departmental Net Debt (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

For the year ended March 31

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Net cost of operations after government funding and transfers	(\$3,039)	\$4,420
Change due to tangible capital assets		
Acquisition of tangible capital assets (Note 11)	58,290	54,598
Amortization of tangible capital assets (Note 11)	(43,252)	(53,387)
Proceeds from disposal of tangible capital assets	(800)	(1,122)
Net loss on disposals, write-off and adjustments to tangible capital assets	(252)	(13,977)
Transfer to/from other government departments (Note 16)	(168)	(6)
Total change due to tangible capital assets	13,818	(13,894)
Change due to inventories (Note 10)	6,093	831
Change due to prepaid expenses	(87)	(87)
Net increase (decrease) in departmental net debt	16,785	(8,730)
Departmental net debt - Beginning of year	201,265	209,995
Departmental net debt - End of year	\$218,050	\$201,265

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

Statement of Cash Flows (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

For the year ended March 31

(in thousands of dollars)

	2016	2015
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$1,047,584	\$1,064,237
Non-cash items:		
Services provided without charge by other government departments (Note 14)	(108,113)	(101,635)
Amortization of tangible capital assets (Note 11)	(43,252)	(53,387)
Net loss on disposals, write-off and adjustments to tangible capital assets	(252)	(13,977)
Transition payments for implementing salary payments in arrears (Note 15)	156	19,283
Variations in Statement of Financial Position:		
Decrease (increase) in accounts payable and accrued liabilities (Note 4)	(70)	(20,903)
Decrease (increase) in vacation pay and compensatory leave	-	149
Decrease (increase) in deferred revenue (Note 5)	829	(667)
Decrease (increase) in employee future benefits (Note 7)	(315)	(8,610)
Decrease (increase) in environmental liabilities (Note 8)	(18,809)	(11,693)
Decrease (increase) in other liabilities	(443)	33,143
Increase (decrease) in accounts receivable and advances (Note 9)	3,463	(4,853)
Increase (decrease) in prepaid expenses	(87)	(87)
Increase (decrease) in inventory (Note 10)	6,093	831
Cash used in operating activities	886,784	901,831
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets (Note 11)	58,290	54,598
Proceeds from disposal of tangible capital assets	(800)	(1,122)
Cash used in capital investing activities	57,490	53,476
FINANCING ACTIVITIES		
Lease payments for tangible capital assets	673	638
Cash used in financing activities	673	638
NET CASH PROVIDED BY GOVERNMENT OF CANADA	\$944,947	\$955,945

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

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives

Environment and Climate Change Canada was established under *Department of the Environment Act*. Under this Act, the powers, duties and functions of the Minister of the Environment and Climate Change extend to and include matters relating to:

- ✓ The preservation and enhancement of the quality of the natural environment (including water, air and soil quality);
- ✓ Renewable resources, including migratory birds and other non-domestic flora and fauna;
- ✓ Water;
- ✓ Meteorology;
- ✓ Enforcement of any rules or regulations made by the International Joint Commission relating to boundary waters; and
- ✓ Coordination of the policies and programs of the Government of Canada respecting the preservation and enhancement of the quality of the natural environment.

Environment and Climate Change Canada delivers its mandate by promoting the three (3) following Strategic Outcomes:

- ✓ **Conservation of Canada's Natural Environment**
Canada's natural environment is conserved and restored for present and future generations.
- ✓ **Weather Information**
Canadians are equipped to make informed decisions on changing weather, water and climate conditions.
- ✓ **Threats from Pollution Minimized**
Threats to Canadians and their environment from pollution are minimized.

The Internal Services Program includes groups of related activities and resources that are administered to support the Department's Strategic Outcomes and Programs. It is the basis for a common government-wide approach to planning, designing, budgeting, reporting and communicating all Government of Canada internal services.

In addition, Environment and Climate Change Canada has authority under numerous pieces of legislation which affect how Environment and Climate Change Canada operates. The most significant Acts are as follows:

- ✓ *Antarctic Environmental Protection Act*
- ✓ *Canada Water Act*
- ✓ *Canada Wildlife Act*
- ✓ *Canadian Environment Week Act*
- ✓ *Canadian Environmental Assessment Act, 2012*
- ✓ *Canadian Environmental Protection Act, 1999*
- ✓ *Department of the Environment Act*
- ✓ *Environmental Enforcement Act*
- ✓ *Environmental Violations Administrative Monetary Penalties Act*
- ✓ *Federal Sustainable Development Act*
- ✓ *Fisheries Act (Sections 36-42)*
- ✓ *International River Improvements Act*
- ✓ *Lac Seul Conservation Act, 1928*
- ✓ *Lake of the Woods Control Board Act, 1921*
- ✓ *Manganese-Based Fuel Additives Act*
- ✓ *Migratory Birds Convention Act, 1994*
- ✓ *National Wildlife Week Act*

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives (continued)

- ✓ *Perfluorooctane Sulfonate Virtual Elimination Act*
- ✓ *Species at Risk Act*
- ✓ *Weather Modification Information Act*
- ✓ *Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade 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 authorities

Environment and Climate Change Canada is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to Environment and Climate Change Canada 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 **2015-16 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 2015-16 Report on Plans and Priorities.**

(b) Net Cash Provided by Government

Environment and Climate Change Canada operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by Environment and Climate Change Canada is deposited to the CRF, and all cash disbursements made by Environment and Climate Change Canada 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) Amount Due from the Consolidated Revenue Fund (CRF)

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 Environment and Climate Change Canada 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.
- ✓ Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- ✓ Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- ✓ Other 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-respondable are not available to discharge Environment and Climate Change Canada's liabilities. While the Deputy Head is expected to maintain accounting control, he has no authority regarding the disposition of non-respondable revenues. As a result, non-respondable 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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(e) Expenses

Expenses are recorded on an accrual basis:

- ✓ Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- ✓ 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's contribution 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. Environment and Climate Change Canada's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Environment and Climate Change Canada'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

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

(h) 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.

(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. When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the government's consolidated revenue fund monthly lending rates for periods of one year and over. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation. For remediation costs with estimated future cash flows spanning more than 25 years, the 25 year Government of Canada lending rate is used as the discount rate.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(j) Inventory

Inventory held for future program delivery consists of meteorological supplies, electric lighting, compressed gases and acetylene, chemicals and related products, scientific and technical equipment and test vehicles. It is valued using the moving average price.

Inventory held for resale consists of printed material, books, maps and forms, stationery and office paper supplies which will be sold in the future. It is valued using the moving average price.

(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. Environment and Climate Change Canada does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

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

Asset class	Amortization Period
Buildings	25 to 40 years
Works and Infrastructure	20 to 40 years
Machinery and Equipment	2 to 30 years
Vehicles	3 to 25 years
Leasehold Improvements	Lesser of the remaining term of lease or useful life of the improvement
Leased tangible capital assets	Over term of lease/useful life

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

(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 believed the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, liabilities for employee future benefits 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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

3. Parliamentary authorities

Environment and Climate Change Canada 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, Environment and Climate Change Canada 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:

(in thousands of dollars)

	2016	2015
Net cost of operations before government funding and transfers	\$1,047,584	\$1,064,237
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (Note 11)	(43,252)	(53,387)
Net loss on disposals, write-off and adjustments to tangible capital assets	(252)	(13,977)
Common services provided without charge by other government departments (Note 14)	(108,113)	(101,635)
Refunds/adjustments to previous years' expenses	5,341	2,543
Decrease (increase) in liabilities related to the workforce adjustment	1,507	155
Decrease (increase) in accrued liabilities not charged to authorities	(2,104)	4,985
Decrease (increase) in vacation pay and compensatory leave	-	149
Decrease (increase) in employee future benefits (Note 7)	(315)	(8,610)
Decrease (increase) in environmental liabilities (Note 8)	(18,809)	(11,693)
Increase (decrease) in inventory (Note 10)	6,093	831
Other	4,214	18,157
	(155,690)	(162,482)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (Note 11)	58,290	54,598
Transition payments for implementing salary payments in arrear	156	19,283
Prepaid expenses	(87)	(87)
Capital lease payments	674	638
	59,033	74,432
Current year authorities used	\$950,927	\$976,187

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

3. Parliamentary authorities (continued)

(b) Authorities provided and used:

(in thousands of dollars)

	2016	2015
Authorities Provided		
Vote 1 - Operating expenditures	\$743,871	\$757,512
Vote 5 - Capital expenditures	84,387	66,984
Vote 10 - Grants & Contributions	119,226	132,315
Statutory amounts	87,226	101,643
	1,034,710	1,058,454
Less:		
Authorities available for future years	(590)	(755)
Lapsed authorities	(83,193)	(81,512)
	(83,783)	(82,267)
Current year authorities used	\$950,927	\$976,187

4. Accounts payable and accrued liabilities

The following table presents details of Environment and Climate Change Canada's accounts payable and accrued liabilities:

(in thousands of dollars)

	2016	2015
Accounts payable - Other government departments and agencies	\$12,146	\$15,864
Accounts payable - External parties	98,827	93,173
Total accounts payable	110,973	109,037
Accrued liabilities	29,328	31,194
Total accounts payable and accrued liabilities	\$140,301	\$140,231

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. As a result, the Department has recorded at March 31, 2016, an obligation for termination benefits for an amount of \$730,000 (\$1,870,000 in 2014-2015) as part of accrued liabilities to reflect the estimated workforce adjustment costs.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties that are restricted in order to fund the expenditures related to specific projects. Revenue is recognized in the period in which these expenditures are incurred or in which the service is performed. Details of the transactions related to this account are as follows:

(in thousands of dollars)	<u>2016</u>	<u>2015</u>
Opening balance	\$7,945	\$7,278
Amounts received		
Donations	1	1
Cost sharing project deposits	5,898	2,007
Revenue recognized	(6,728)	(1,341)
Closing balance	\$7,116	\$7,945

6. Lease obligation for tangible capital assets

Environment and Climate Change Canada has entered into agreements to lease certain equipment under capital leases with a cost of \$18,198,560 and accumulated amortization of \$10,190,791 as at March 31, 2016 (\$18,198,560 of cost and \$9,462,848 in accumulated amortization respectively as at March 31, 2015) as reflected in note 11. The obligations related to the upcoming years include Carleton University for which, on October 13, 2000, Environment and Climate Change Canada entered into an agreement to rent office laboratory space for the National Wildlife Research Centre (NWRC), at an annual cost of \$1,300,000 under a capital lease which expires in 2028.

(in thousands of dollars)	<u>2016</u>	<u>2015</u>
Maturing year		
2016		\$1,300
2017	\$1,300	1,300
2018	1,300	1,300
2019	1,300	1,300
2020	1,300	1,300
2021 and thereafter	9,100	9,100
Total future minimum lease payments	14,300	15,600
Less: imputed interest (5.63%)	3,850	4,477
Balance of obligation under leased tangible capital assets	\$10,450	\$11,123

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

7. Employee future benefits

(a) Pension benefits

Environment and Climate Change Canada'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 Department 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 \$58,090,226 (\$61,199,436 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.

Environment and Climate Change Canada'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

Environment and Climate Change Canada provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. 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:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Accrued benefit obligation, beginning of year	\$36,111	\$27,501
Expense for the year	5,784	23,610
Benefits paid during the year	(5,469)	(15,000)
Accrued benefit obligation, end of year	<u>\$36,426</u>	<u>\$36,111</u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

8. Environmental liabilities

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.

Environment and Climate Change Canada has identified approximately 163 sites (182 sites in 2014-2015) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified 23 sites (23 sites in 2014-2015) where action is possible and for which a liability of \$126,025,708 (\$122,609,100 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.

In 2016, a statistical model was developed to estimate the liability for unassessed sites based on historical costs incurred for contaminated sites with similar functions. As a result, there are 43 unassessed sites where a liability estimate of \$15,392,016 has been recorded prospectively in 2016. This estimate will be refined in future years as sites are assessed and estimated costs are revised.

These two estimates combined 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. A net present value technique has been used for sites where the cash flows are expected to occur over extended future periods.

The following table presents the total estimated amounts of these liabilities by nature and source, the associated expected recoveries and the total undiscounted future expenditures as at March 31, 2016, and March 31, 2015. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2%. Inflation is included in the undiscounted amount. The Government of Canada lending rate applicable to loans with similar terms to maturity has been used to discount the estimated future expenditures. The March 2016 rates range from 0.62% for 2 year term to 2.13% for a 25 or greater year term.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

8. Environmental liability (continued)

(in thousands of dollars)	Number of Sites 2016	Estimated Liability 2016	Estimated Total Undiscounted Expenditures 2016	Number of Sites 2015	Estimated Liability 2015	Estimated Total Undiscounted Expenditures 2015
Fuel Related Practices ⁽¹⁾	9	38,046	40,975	8	22,257	25,404
Marine Facilities / Aquatic Sites ⁽²⁾	48	99,460	104,485	12	96,987	103,408
Parks and Protected Areas ⁽³⁾	8	3,679	3,736	3	3,365	3,425
Office / commercial / industrial operations ⁽⁴⁾	1	233	233	0	-	-
Totals	66	\$141,418	\$149,429	23	\$122,609	\$132,237

⁽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 as well as benzene, toluene, ethylbenzene, and xylenes (BTEX).

⁽²⁾ Contamination associated with the operations of marine assets, e.g., port facilities, harbours, navigation systems, light stations, hydrometric stations, where activities such as fuel storage/handling, use of metal based paint (e.g., on light stations) resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons and other organic contaminants. Sites often have multiple sources of contamination.

⁽³⁾ Contamination associated with the operations and maintenance of parks and protected areas where activities such as fuel storage/handling, waste sites and use of metal based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, PCBs and other organic contaminants. Sites often have multiple sources of contamination.

⁽⁴⁾ Contamination associated with the operations of the office/commercial/industrial facilities where activities such as fuel storage/handling, waste sites and use of metal-based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, etc. Sites often have multiple sources of contamination.

Of the remaining 97 sites, 18 sites were closed, as they were either remediated or assessed and found not to be contaminated. 79 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 Government's ongoing efforts to assess contaminated sites may result in additional environmental liabilities. Any additional liabilities will be accrued in the year in which they become known and can be reasonably estimated.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

9. Accounts receivable and advances

The following table presents details of Environment and Climate Change Canada's accounts receivable and advances balances:

(in thousands of dollars)	2016	2015
Receivables - Other government departments and agencies	\$8,029	\$4,087
Receivables - External parties	13,695	12,941
Employee advances	230	49
Subtotal	21,954	17,077
Allowance for doubtful accounts on receivables from external parties	(428)	(256)
Gross accounts receivable	21,526	16,821
Accounts receivable held on behalf of Government	(4,551)	(3,309)
Net accounts receivable	\$16,975	\$13,512

10. Inventory

The following table presents details of the inventory:

(in thousands of dollars)	2016	2015
Printed material, books, maps and forms	\$68	\$80
Stationery and office paper supplies	480	487
Meteorological supplies	12,134	7,376
Electric lighting	55	57
Compressed gases and acetylene	1	2
Chemicals and related products	8	11
Scientific & technical equipment	11	11
Test vehicles	2,593	1,233
Total inventory	\$15,350	\$9,257

Inventory is valued using the moving average price.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

11. Tangible capital assets

Cost

(in thousands of dollars)

	2015	Acquisitions	Adjustments ⁽³⁾	Disposals and Write-offs	2016
Land	\$25,736	-	-	-	\$25,736
Buildings	210,027	16	2,556	1	212,598
Works and infrastructure	35,240	46	30	-	35,316
Machinery and equipment	477,055	14,813	815	17,424	475,259
Vehicles ⁽²⁾	40,655	3,430	30	2,178	41,937
Leasehold improvements	37,649	-	235	-	37,884
Assets under construction ⁽¹⁾	73,624	39,985	(3,802)	918	108,889
Leased tangible capital asset - building	18,199	-	-	-	18,199
	\$918,185	\$58,290	(\$136)	\$20,521	\$955,818

Accumulated amortization

(in thousands of dollars)

	2015	Amortization	Adjustments ⁽³⁾	Disposals and Write-offs	2016
Buildings	\$127,883	\$6,139	(\$28)	-	\$133,994
Works and infrastructure	7,096	1,645	(18)	-	8,723
Machinery and equipment	352,050	30,770	(29)	17,277	365,514
Vehicles ⁽²⁾	28,804	2,372	(2)	2,083	29,091
Leasehold improvements	31,026	1,598	-	-	32,624
Leased tangible capital asset - building	9,463	728	-	-	10,191
	\$556,322	\$43,252	(\$77)	\$19,360	\$580,137

Net book value

(in thousands of dollars)

	2015	2016
Land	\$25,736	\$25,736
Buildings	82,144	78,604
Works and infrastructure	28,144	26,593
Machinery and equipment	125,005	109,745
Vehicles ⁽²⁾	11,851	12,846
Leasehold improvements	6,623	5,260
Assets under construction ⁽¹⁾	73,624	108,889
Leased tangible capital asset - building	8,736	8,008
Net Book Value	\$361,863	\$375,681

⁽¹⁾ Assets under construction include: buildings, engineering works, software and other construction.

⁽²⁾ Vehicles include: road motor vehicles, off road vehicles, aircraft, mobile laboratories, ships and boats.

⁽³⁾ Adjustments are post-capitalization and write-offs for a net book value of \$81.6K reduced by transfers of tangible capital assets between departments with a net effect of (\$140,6K) on the departmental net financial position.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

12. Contractual obligations

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

(in thousands of dollars)	Operating leases	Transfer payments	Other	Total
2017	\$9,044	\$83,597	\$58,518	\$151,159
2018	9,044	69,137	31,287	\$109,468
2019	7,915	59,762	7,371	\$75,048
2020	7,915	27,019	2,981	\$37,915
2021 and thereafter	173,554	37,317	9,368	\$220,239
Total	\$207,472	\$276,832	\$109,525	\$593,829

13. Contingent liabilities

Claims have been made against Environment and Climate Change Canada 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. Environment and Climate Change Canada has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$8,775,000 at March 31, 2016 (\$8,725,000 in 2014-2015).

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

14. Related party transactions

Environment and Climate Change Canada is related as a result of common ownership to all Government departments, agencies, and Crown corporations. Environment and Climate Change Canada enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, Environment and Climate Change Canada 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, Environment and Climate Change Canada received services without charge from certain common service organizations, related to accommodation, the employer's contribution to the health and dental insurance plans, legal services and workers' compensation coverage. These services provided without charge have been recorded in Environment and Climate Change Canada's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2016	2015
Accommodation	\$57,566	\$52,612
Employer's contribution to the health and dental insurance plans	46,736	45,966
Legal services	2,678	1,905
Workers' compensation	1,133	1,152
Total	\$108,113	\$101,635

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 the payroll and cheque issuance services provided by Public Services and Procurement Canada, the informatic services provided by Shared Services Canada and the audit services provided by the Office of the Auditor General are not included in Environment and Climate Change Canada's Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties :

(in thousands of dollars)	2016	2015
Accounts receivable - Other government departments and agencies	\$8,029	\$4,087
Accounts payable - Other government departments and agencies	\$12,146	\$15,864
Expenses - Other Government departments and agencies	\$170,636	\$169,394
Revenues - Other Government departments and agencies	\$28,614	\$26,929

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

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

15. 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 Environment and Climate Change Canada. 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.

16. Transfers to/from other government departments

During the year, Environment and Climate Change Canada transferred tangible capital assets with Fisheries and Oceans Canada and National Defence with a net effect of \$168,112 (\$6,050 in 2014-2015) on the departmental net financial position affecting categories under land, machinery and equipment and vehicles.

(in thousands of dollars)

Assets:

	<u>2016</u>
Tangible capital assets (Note 10)	<u>\$168</u>
Total assets transferred	<u>168</u>
Adjustment to Environment and Climate Change Canada net financial position	<u><u>\$168</u></u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

17. Segmented information

Presentation by segment is based on Environment and Climate Change Canada'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 following table presents the expenses incurred and revenues generated by strategic outcomes, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)	Conservation of Canada's natural environment	Weather Information	Threats from pollution minimized	Internal Services	2016	2015
Operations and administration						
Salaries and employee benefits	\$183,576	\$162,197	\$173,573	\$145,380	\$664,726	\$692,691
Professional and special services	26,304	13,889	25,373	18,619	84,185	76,161
Accommodation	18,510	14,442	16,046	13,711	62,709	54,662
Amortization of tangible capital assets	14,966	10,134	10,804	7,348	43,252	53,387
Other contracted services	6,582	9,962	3,068	8,232	27,844	39,406
Materials and supplies	7,650	5,079	6,413	2,085	21,227	33,276
Rentals	17,005	3,366	1,361	4,858	26,590	26,872
Travel	10,013	6,867	5,598	2,600	25,078	26,780
Machinery & equipment	5,142	2,091	2,514	1,721	11,468	15,684
Net loss on disposals, write-off and adjustments to tangible capital assets	3	196	2	51	252	13,977
Environmental liabilities expenditures	-	-	18,809	-	18,809	11,693
Equipment repair and maintenance	3,605	3,196	2,320	624	9,745	10,058
Postage	1,636	1,171	588	482	3,877	4,483
Information services – communications	882	510	621	361	2,374	3,740
Telecommunications	312	215	63	91	681	1,815
Earmarked fees and levies	939	-	-	-	939	985
Other	2,131	1,514	672	6,561	10,878	(13,332)
Total Operations and administration	299,256	234,829	267,825	212,724	1,014,634	1,052,338
Transfer payments						
Non-profit organizations	81,239	2,180	10,821	-	94,240	77,962
Other countries and international organizations	626	3,396	10,633	-	14,655	15,812
Other levels of governments within Canada	7,929	166	-	-	8,095	7,965
Other to individuals	443	19	-	-	462	291
Industry	328	(25)	2	-	305	156
Total Transfer payments	90,565	5,736	21,456	-	117,757	102,186
Total Expenses	389,821	240,565	289,281	212,724	1,132,391	1,154,524
Revenues						
Sales of goods and services	35,420	33,484	5,618	4,324	78,846	85,932
Other revenues	10,541	4,656	703	790	16,690	30,483
Revenues earned on behalf of Government	(6,023)	(3,111)	(805)	(790)	(10,729)	(26,128)
Total Revenues	39,938	35,029	5,516	4,324	84,807	90,287
Net cost of operations	\$349,883	\$205,536	\$283,765	\$208,400	\$1,047,584	\$1,064,237

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

18. Comparative information

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

Environment and Climate Change Canada

**Annex to the
Statement of Management Responsibility
Including Internal Control Over
Financial Reporting 2015-2016**

Environment and Climate Change Canada

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting 2015-2016

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Annex to the Statement of Management Responsibility

1. Introduction

This document is an annex to Environment and Climate Change Canada's (ECCC) *Statement of Management Responsibility (SOMR) Including Internal Control Over Financial Reporting (ICFR)* for the fiscal year 2015-2016. This document provides summary information on the measures taken by ECCC to maintain an effective system of ICFR, including information on Internal Control Management (ICM) and assessment results and related action plan. It should be noted that 2015-2016 was the first full year of ECCC's SAP implementation and also the introduction of the Phoenix pay system on February 24, 2016.

Detailed information on ECCC's authority, mandate and program activities can be found in the [Departmental Performance Reports](#) and [Report on Plans and Priorities](#).

2. Environment and Climate Change Canada's System of Internal Control Over Financial Reporting

2.1 Internal Control Management

ECCC's ICM is governed by an over-arching Internal Control Framework (ICF) that includes a Financial Management Framework as an integral component. ICM includes the following elements:

- governance and accountability structures for internal control management;
- an integrated ICFR approach and methodology;
- effective oversight, assessment and remediation mechanisms; and
- a comprehensive ICFR ongoing monitoring program which includes an annual monitoring plan.

ECCC has invested significant effort into aligning, streamlining and integrating these components essential to effective ICM. These efforts have been undertaken to ensure continuous progression towards a state of maturity that is consistent with the guidance and common practices set by the Office of the Comptroller General of Canada (OCG) and in accordance with the Treasury Board (TB) *Policy on Internal Control (PIC)*.

Internal Control Framework

ECCC has an ICF approved by the Deputy Minister (DM), demonstrating an increased departmental focus on ICM and signaling management's leadership and commitment towards financial integrity, transparency, and management accountability. The ECCC ICF incorporates leading practices and departmental lessons learned over the last seven years of ICFR assessments under the TB *PIC*.

The ICF provides an anchor point for ICM, and describes the structure, context and processes by which internal controls are identified, assessed and monitored. The purpose of the ICF is to:

- describe the roles and responsibilities of the DM, Senior Departmental Managers, Managers and employees for ICM;
- set out the commitments to provide regular status updates/reports on the effectiveness of internal controls to Senior Departmental Managers and the External Audit Advisory Committee;
- establish a common foundation for ICM within the Department;
- address the TB requirements relating to internal controls, including ICFR; and
- establish a context and structure that allow for effective ICM.

Organizational Accountabilities Structure

As described in its ICF, ECCC has a well-established governance and accountability structure which supports departmental assessment efforts and oversight of its system of internal controls throughout the organization.

Roles and responsibilities as they relate to ICM are as follows:

- **Deputy Minister (DM)** – ECCC's DM, as Accounting Officer, assumes overall stewardship responsibility and leadership for ICM. The DM is responsible for oversight of the establishment, monitoring and review of the departmental system of internal control, as well as for monitoring compliance with the *PIC*.
- **Chief Financial Officer (CFO)** – ECCC's CFO reports directly to the DM and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICM, inclusive of ICFR. The CFO's key roles are a strategic advisor and steward of sound internal control and financial management practices.
- **Senior Departmental Managers (SDMs)** – SDMs, who report directly to the DM, are responsible to provide leadership in financial management, internal controls, and financial reporting and disclosure. They are also responsible for seeking the advice and support of the CFO in the development and maintenance of an effective financial management, risk and control framework over programs. Additionally, SDMs must provide the DM with assurance that business processes and appropriate controls are in place to ensure the effectiveness of their organization's financial management and internal control systems to meet the requirements set out in the SOMR including ICFR.
- **Chief Audit Executive (CAE)** – The CAE provides independent assurance to the DM regarding the effectiveness of risk management, control and governance processes.
- **External Audit Advisory Committee (EAAC)** – The EAAC is an independent committee, consisting of three external members, which provides the Deputy Minister with objective advice and recommendations regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the Department's risk management, control and governance frameworks and processes (including accountability and auditing systems). The EAAC also reviews the Departmental Financial Statements and the annual SOMR, including the related Annex.
- **Executive Management Committee (EMC)** – EMC is the collective senior executive body of the Department where consensus is built on horizontal management issues, options are discussed, and recommendations are made for decision by the Deputy Minister. EMC recommends the overall strategic direction and priorities of the

Department and oversees the management of departmental activities, and their related resources, results and risks in an integrated way.

- **Financial Policy, Systems and Controls (FPSC) Division** of the Procurement, Accounting and Controls Directorate - Leads the integrated management, stewardship of departmental Internal Control Management (ICM) and continual transformation and improvement of departmental financial systems, corporate financial policy and business process management. FPSC internal control assessments and remediation of control deficiencies involve the engagement of all branches and regions. Strong ICM is a requirement under the TB *PIC* and is a key assessment area under the Treasury Board Secretariat (TBS) Management Accountability Framework – Area of Management 7 – Finance.

Governance and Oversight Measures

ECCC's control environment includes a series of measures which help ensure that risks are effectively managed through a responsible and risk-based approach.

Key measures include:

- ECCC continues to advance and support public service values and ethical standards for its employees and managers through a mandatory online Values and Ethics Course. By the end of the 2015-16 fiscal year, 82% of ECCC employees had completed values and ethics training;
- an *Integrated Risk Management Framework*, and a broadly communicated *Corporate Risk Profile* contribute to effective risk management at ECCC. Increased employee awareness, ongoing monitoring and timely mitigating activities ensure that emerging/changing risks are appropriately managed;
- the *Delegation of Financial Signing Authorities and Designation Order Instrument* was updated in 2015-2016 as per TBS *Directive on Delegation of Financial Authorities for Disbursements* requirements;
- annual *Performance Management Agreements* for SDMs that assess accountabilities and financial management responsibilities;
- an *Internal Control Checklist* signed by each SDM, integrated as part of the annual *Public Accounts Letter of Representation* approval process, confirming that the respective organization had maintained a system of financial management and internal control and that all known deficiencies in the operation of disclosure controls and procedures and of ICFR have been disclosed;
- ongoing training programs and regular communication to departmental employees on core areas of financial management, financial systems, business processes, and financial policy; and
- a formal SAP change management process to ensure key system-related issues and risks identified by users and stakeholders are recorded and communicated to the SAP system host (AAFC) for corrective action in a timely manner.

ECCC Monitoring Strategy for ICM

ECCC's Monitoring Strategy for ICM provides a description of the approach and methodology to ensure that ICM activities, including monitoring of its system of ICFR, align with the *PIC*. This Strategy describes in detail ECCC's ongoing system of testing, remediation and monitoring

of its internal controls to ensure key controls are working as intended. The Strategy references and adopts generally accepted internal control assessment leading practices, including Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Control Objectives for Information and Related Technology (COBIT) standards.

The key components of the ICM Monitoring Strategy include:

- an enhanced annual risk-based assessment based on a combination of quantitative and qualitative elements, as well as the findings of other oversight/assurance providers;
- an annual *Controls Assessment Plan* which includes documentation, design and operating effectiveness testing, and remediation and ongoing monitoring plans;
- the requirements for pre-payment, payment and post-payment verification, in accordance with the TBS *Directive on Account Verification*;
- comprehensive remediation monitoring activities that systematically addresses required adjustments stemming from assessments, which includes semi-annual follow-up with Business Process Owners and reporting on the status of outstanding remediation actions to the CFO;
- the requirements for reporting to the DM, the TBS, and ECCC's EAAC, regarding ICM, inclusive of ICFR;
- FPSC collaboration with multi-disciplinary areas of responsibility across ECCC; namely, with the Finance Branch Corporate Development Unit and the Audit and Evaluation Branch for the risk-based assessment and monitoring of all key control elements; and
- stakeholder engagement and horizontal/cross functional integration to provide a coordinated approach to monitoring the effectiveness of ECCC's ICM.

2.2 Service Arrangements Relevant to Financial Statements

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

Common Arrangements

- Public Service and Procurement Canada (PSPC) centrally administers the payments of salaries and benefits, the procurement of some goods and services, as well as the cost of accommodations on behalf of ECCC. In addition, PSPC, with its Transformation of Pay Administration initiative has established a new Pay Centre in Miramichi that is responsible for processing and the quality assurance of ECCC's salaries and benefits transactions. Changes to the government wide payroll system (Phoenix) and the impact on internal controls will be reviewed in 2016-17;
- Shared Services Canada (SSC) provides IT infrastructure services to ECCC in the areas of data centre and network services. The scope and responsibilities are outlined in the interdepartmental agreement between SSC and ECCC. SSC has updated its ITGC Framework with the objective to identify a set of common 'end-state' IT controls that can be applied horizontally to all infrastructure services, and that aims to differentiate the broad roles and responsibilities between SSC and departmental partners. End-state IT control testing is targeted to begin on-going monitoring rotation starting in 2018-2019;
- The TBS provides ECCC with information used to calculate some accruals and allowances such as the accrued severance liability;

- The Department of Justice provides legal services to ECCC; and
- The Public Prosecution Service of Canada provides prosecution services to ECCC.

Specific Arrangements

- Agriculture and Agri-Food Canada (AAFC) provides ECCC with a SAP financial system platform to capture and report all financial transactions. Under this arrangement, ECCC relies on AAFC for the management of certain IT controls and procedures (e.g. security, configuration, change management, business continuity) and also manages various master data functions in SAP on ECCC's behalf.

3. Departmental Assessment Results During Fiscal Year 2015-2016

In 2015-16, consistent with Management Accountability Framework (MAF) assessment results, ECCC has advanced to the status of continuous monitoring during its first full year of SAP post implementation. ECCC was able to complete the full assessment of ICFR through the identification of key financial control testing work completed cumulatively over the past few years, particularly from updates made to documentation, data cleansing efforts made as part of the SAP implementation on April 1, 2015, as well as the establishment of SAP risk-based controls for Section 33 as well as risk-based quality assurance reviews.

ECCC will undertake rotational ongoing monitoring strategy for all key control areas in 2016-2017.

3.1 Ongoing Monitoring of Key Controls

Work Completed as Expected and Planned:

ECCC has completed the full complement of internal control initiatives planned for 2015-2016. ECCC completed ongoing monitoring of the following Key Control Areas:

- Entity Level Controls (ELC) (focus on governance and fraud)
- Information Technology General Controls (ITGCs)
- Manage Financial Close (focus on petty cash)
- Manage Procure to Payment (P2P)

Additional Work Completed:

In addition to the work completed as expected and planned, ECCC completed ongoing monitoring of the following Key Control Areas:

- Manage Travel (focus on ECollab site)
- Manage Grants & Contributions
- Manage Vendor Master Data File
- Pay Administration (focus on employee departure)

Remediation Actions:

As a result of ongoing monitoring, ECCC identified the following key remediation actions:

- **For ELCs:** coordinate a review of the governance and policy framework over the management of fraud, in order to clarify the roles and responsibilities, and to enhance the existing policies; and
- **For ITGCs:** ensure proper governance structure and direction for the implementation of the Enterprise Asset Management (EAM) Phase 2, including a Project Steering Committee that meets frequently, has broad ECCC representation and formalizes its proceedings.

In addition, this fiscal year ECCC implemented the following required key remediation actions:

- Obtained assurance on system governance and business continuity planning through a third-party ITGC audit conducted on the host system at AAFC;
- Conducted risk-based post-payment account verification to assess control efficiencies for various P2P and Travel transactions; and
- Advanced fraud awareness by integrating fraud prevention into mandatory values and ethics training for employees.

ECCC has improved ongoing monitoring of key ICM controls by implementing the approach and methodology set forth in the ECCC Monitoring Strategy for ICM. A key part of ECCC's strategy has been continued focus on communication and stakeholder engagement, fostering a goal-oriented monitoring environment based on open dialogue and collaboration.

Furthermore, in 2015-2016 ECCC continued its monitoring and reporting on remediation actions, a key component of the ECCC Monitoring Strategy for ICM. This monitoring provides the CFO and stakeholders with updates on the Department's outstanding ICM remediation actions and ensures that the progress in the *Control Assessment Plan* is aligned with management expectations.

In addition to the ongoing monitoring on material and high risk processes, design and operational effectiveness testing on low and medium risk processes continued as originally planned.

3.2 Design Effectiveness of Key Controls

Work Completed as Expected and Planned:

In 2015-2016, ECCC completed the design effectiveness testing of the last remaining key ICFR business processes:

- Manage Other Payments
- Manage Customer Master Data File
- Manage Revenue, Receivables and Receipts
- Manage Interdepartmental Settlements
- Manage Collection of Overdue Receivables
- Manage Departmental Chart of Accounts

Remediation Actions:

As a result of the design effectiveness testing completed this fiscal year, ECCC identified and is undertaking the following design effectiveness remediation actions:

- Strengthen governance and oversight over the revenue processes including enhancing revenue management capacity and skill sets, policies and procedures, and implementing internal training for creating and managing revenue financial arrangements;
- Review and strengthen controls related to conducting periodic reviews of customer records and overdue receivables;
- Ensure key policy updates and underpinning roles and responsibilities for inputting, processing and monitoring interdepartmental settlement and revenue transactions are captured and rolled out by the policy holders on a timely basis; and
- Update procedural guidance on ECCC's intranet page as a result of the transition to SAP.

3.3 Operating Effectiveness of Key Controls

Work Completed as Expected and Planned:

In 2015-2016, ECCC completed the operating effectiveness testing of the following key control areas:

- Manage Customer Master Data File
- Manage Administration of Acquisition and Fleet Cards
- Manage Other Capital Assets
- Manage Real Property
- Manage Inventory
- Manage Travel
- Pay Administration
- Manage Grants and Contributions
- Manage Vendor Master Data File
- Manage Collection of Overdue Receivables (low-risk)
- Manage Departmental Chart of Accounts
- Environmental Liabilities

Remediation Actions:

As a result of the completed operating effectiveness testing conducted this fiscal year, ECCC identified the following required remediation:

- Review and clarify procedural steps pertaining to key controls, and the associated roles and responsibilities relating to Manage Grants and Contributions and Manage Administration of Acquisition and Fleet Cards.

4. Environment and Climate Change Canada’s ICM Action Plan

4.1 Progress During Fiscal Year 2015-2016

During 2015-2016, ECCC continued to make significant progress in completing the assessment of its key controls and met all of the expectations that were set in its action plan for the year in the 2014-2015 annex. Table 1 provides a summary of the progress made by ECCC based on the plans identified in the previous year's annex.

Table 1 Work Completed in 2015-2016 Based on Action Plan in 2014-15 Annex	
Element in previous year’s (2014-15) action plan	Updated Status at March 31, 2016
Documentation: <ul style="list-style-type: none"> • Manage Other payments • Manage Interdepartmental Settlements • Manage Post Payment Verification 	<ul style="list-style-type: none"> • Documentation phase completed.
Design effectiveness testing: <ul style="list-style-type: none"> • Manage Other Payments • Manage Customer Master Data File • Manage Interdepartmental Settlements • Manage Revenues, Receivables, and Receipts • Manage Collection of Overdue Receivables • Manage Departmental Chart of Accounts 	<ul style="list-style-type: none"> • Design effectiveness testing completed for all ICFR key control areas. • The design effectiveness testing status for the Manage Departmental Chart of Accounts and Manage Planning and Budgeting processes have been completed. This was confirmed through the identification of financial control testing work completed cumulatively over the past few years, particularly from updates made to documentation and data cleansing efforts made as part of the SAP implementation on April 1, 2015. • Design Effectiveness testing for the Internal Control over Financial Management (ICFM) key control area for Manage Forecasting and Budget Review is deferred to future years.
Design effectiveness remediation: <ul style="list-style-type: none"> • Manage Customer Master Data File • Manage Collection of Overdue Receivables • Manage Departmental Chart of Accounts • Enterprise Asset Management (EAM) Module 	<ul style="list-style-type: none"> • Monitoring of remediation actions was conducted throughout the fiscal year with semi-annual status updates on remediation actions provided to the CFO. • Remediation substantially advanced for low risk control areas of Manage Customer Master Data File and Manage Collection of Overdue Receivables. • The design effectiveness remediation status of the Manage Departmental Chart of accounts process has been completed. • Remediation substantially advanced as part of Phase 2 of the EAM Module implementation which involves

	<p>continued stakeholder consultations with our SAP system host AAFC. In future years, the EAM Module will be rolled into IT application control testing of the impacted key control areas, namely Manage Other Capital Assets, Manage Real Property and Manage Inventory. These processes are currently in on-going monitoring.</p>
<p>Operating effectiveness testing:</p> <ul style="list-style-type: none"> • Manage Customer Master Data File (low-risk) • Manage Administration of Acquisition and Fleet Cards • Manage Other Capital Assets • Manage Real Property • Manage Inventory • Manage Travel • Pay Administration • Manage Grants and Contributions • Manage Vendor Master Data File • Manage Collection of Overdue Receivables (low-risk) • Manage Departmental Chart of Accounts • Environmental Liabilities 	<ul style="list-style-type: none"> • Operating effectiveness testing completed for Manage Administration of Acquisition Cards and Manage Customer Master Data File. • Operating effectiveness testing for the low risk control area Manage Collection of Overdue Receivables is deferred to future years due to delay in changes made to the SAP system configuration. • Operating effectiveness testing for the EAM Module will be rolled into IT application control testing of the impacted key control areas, namely Manage Other Capital Assets, Manage Real Property and Manage Inventory. These processes are currently in on-going monitoring. • The operating effectiveness testing and remediation status for the remaining key control areas identified in the previous year's annex have been completed. This was confirmed through the identification of financial control testing work completed cumulatively over the past few years, particularly from updates made to documentation and data cleansing efforts made as part of the SAP implementation on April 1, 2015, as well as the establishment of SAP gating and risk-based quality assurance reviews. • The operating effectiveness assessments planned in the previous year's annex and completed in 2015-16 have been relabeled as on-going monitoring assessments.
<p>Operating effectiveness remediation:</p> <ul style="list-style-type: none"> • Pay Administration • Manage Grants and Contributions • Manage Vendor Master Data File • Manage Departmental Chart of Accounts • Manage Delegation of Financial and Spending Authorities 	<ul style="list-style-type: none"> • Monitoring of remediation actions was conducted throughout the fiscal year with semi-annual status updates on remediation actions provided to the CFO. • The operating effectiveness status for the key control areas identified for remediation in the previous year's annex have been completed.
<p>Ongoing monitoring</p> <ul style="list-style-type: none"> • Entity Level Controls (ELC) • Information Technology General Controls (ITGCs) • Manage Financial Close • Manage Procure to Payment 	<ul style="list-style-type: none"> • Rotational assessments completed for high-risk key control areas of ELCs (focus on governance and fraud), ITGCs, Manage Financial Close (focus on petty cash) and Manage Procure to Payment. • Additional on-going monitoring assessments completed on key control areas identified for operating effectiveness testing in 2015-16 in the

	previous years' annex, including: <ul style="list-style-type: none"> - Manage Travel (focus on Events) - Pay Administration (focus on departure process) - Manage Grants and Contributions - Manage Vendor Master Data File - Manage Departmental Chart of Accounts
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4.2 Status and Action plan for Fiscal Year 2016-2017 and Subsequent Years

Under the *PIC*, departments need to be able to maintain an effective system of ICM, including ICFR, with the objectives to provide reasonable assurance that transactions are appropriately authorized, financial records are properly maintained, assets are safeguarded and applicable laws, regulations and policies are followed.

All ICM activities planned for 2016-17 have been re-evaluated within the context of recent system functionality changes related to SAP and Phoenix implementation, as well as ECCC's completion of its first full risk-based assessment of its system of ICFR.

For 2016-17, ECCC has highlighted the high-risk key control areas that will be assessed. For the two subsequent years, all further ICM assessment activities will be conducted under a new risk and capacity based rotational ongoing monitoring strategy following a cyclical approach, currently in development.

The rotational ongoing monitoring action plan for ECCC's ICM Assessments is shown in Table 2.

Table 2 Rotational Ongoing Monitoring Plan for ICM				
Key Control Areas		2016-2017	2017-2018	2018-2019
High Risk ⁽¹⁾ (Annual)	Entity Level Controls	Yes	Yes	Yes
	Information Technology General Controls (ITGCs)	Yes	Yes	Yes
	Process Level Controls:			
	Manage Procure to Payment	Yes	Yes	Yes
	Manage Travel	Yes	Yes	Yes
	Pay Administration	Yes	Yes	Yes
	Manage Administration of Acquisition and Fleet Cards	Yes	Yes	Yes
	Manage Delegation of Financial and Spending Authorities	Yes	Yes	Yes
Low/Medium Risk ⁽²⁾ (3 year cycle)	Manage Financial Close	No	No	Yes
	Manage Other Capital Assets	No	No	Yes
	Manage Real Property	No	No	Yes

Table 2		Rotational Ongoing Monitoring Plan for ICM		
Key Control Areas		2016-2017	2017-2018	2018-2019
	Manage Inventory	No	No	Yes
	Manage Grants and Contributions	No	TBD	TBD
	Manage Other Payments	No	TBD	TBD
	Manage Vendor Master Data File	Yes	No	No
	Manage Customer Master Data File	No	No	Yes
	Manage Revenue, Receivables and Receipts	No	TBD	TBD
	Manage Interdepartmental Settlements	No	Yes	No
	Manage Planning and Budgeting	No	TBD	TBD
	Manage Forecasting and Budget Review	No	TBD	TBD
	Manage Collection of Overdue Receivables	No	TBD	TBD
	Manage Departmental Chart of Accounts	No	Yes	No
	Manage Post Payment Verification	No	Yes	No
	Environmental Liabilities	No	No	Yes

Notes: 1. ICM assessment activities for these key controls areas are being integrated into a risk and capacity-based continuous monitoring approach. In 2016-17, ECCC will be reviewing its ICFR assessment strategy to provide a more streamlined risk and capacity-based three-year rotational ongoing monitoring plan that meets its control objectives.

2. The ongoing monitoring status indicating “TBD” are confirmed once these business processes are fully assessed over the next two fiscal years.