



Environment
Canada

Environnement
Canada



DEPARTMENTAL FINANCIAL STATEMENTS 2013-2014

Preface to the Departmental Financial Statements of Environment Canada

The fundamental purpose of the departmental financial statements is to provide information to Parliament and Canadians to facilitate an understanding and evaluation of the full nature and extent of the financial affairs and resources for which Environment Canada is responsible.

Environment Canada's unaudited financial statements are a key public financial report, and are published yearly in the fall as part of the *Departmental Performance Report*. They are produced on a basis consistent with the department's annual *Public Accounts* submissions, which are consolidated with the Government of Canada Public Accounts. Financial Statements that are subject to an external audit will have an auditor's report appended to them. Financial Statements that are not subject to an external audit are annotated "unaudited" on each page. It is the case for Environment Canada.

Public Accounts

Volume I of the *Government of Canada Public Accounts* presents the financial statements of the government, which represent a consolidation of all federal departments and agencies financial statements. The Government of Canada financial statements are presented on an accrual basis of accounting which are based on Canadian public sector accounting standards.

Volume II of the *Public Accounts* is designed to reflect the form and content of Part II of the Main Estimates, which displays the source and disposition of *Parliamentary Appropriation* and spending authorities provided to departments and agencies, and is presented on a modified cash basis of accounting. Under the modified cash basis of accounting, certain specific payables and receivables are accrued while items such as inventories, prepaid expenses, and capital assets are recorded as expenditures when used during the year.

Departmental Financial Statements

Treasury Board policy requires departmental financial statements to be included and published as part of their *Departmental Performance Reports*. The Office of the Comptroller General of Canada determines the presentation and format of the financial statements to ensure consistency across departments of the Government of Canada. Environment Canada's financial statements are presented on an accrual basis of accounting and prepared in accordance with Treasury Board policies (i.e. Treasury Board Accounting Standard or TBAS 1.2) which are based on Canadian public sector accounting standards. The departmental financial statements are derived from the Department's Volumes I and II *Public Accounts* submission, and the reconciliation between Parliamentary Appropriations Used (*modified cash basis*) and the Net Cost of Operations (*accrual basis*) is set out in Note 3 to the financial statements.

Departmental Performance Report

Departmental Performance Reports are individual department and agency accounts of results achieved against planned performance expectations as set out in respective *Reports on Plans and Priorities*. The *Departmental Performance Reports*, which cover the most recently completed fiscal year, are tabled in Parliament in the fall by the President of the Treasury Board on behalf of ministers who preside over appropriation dependent departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*.

Performance and financial information disclosed in the *Departmental Performance Report*, other than the departmental financial statements, are presented on a modified cash basis as performance results are disclosed based upon the use of *Parliamentary Appropriations*.

Financial information submitted to the *Public Accounts of Canada* and included in the department's *Departmental Performance Report* is consistent with these financial statements.

Statement of Management Responsibility Including Internal Control Over Financial Reporting 2013-2014

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2014, and all information contained in these statements rests with the management of Environment 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 Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Environment 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 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 Environment 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, 2014 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 Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Environment 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 Canada.

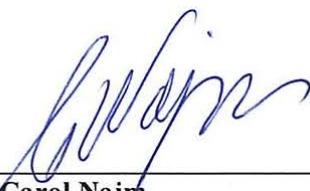
The financial statements of Environment Canada have not been audited.



Michael Martin
Deputy Minister

Gatineau, Canada

Date: **AUG 27 2014**



Carol Najm
Chief Financial Officer

Gatineau, Canada

Date: **AUG 26 2014**

Statement of Financial Position (Unaudited)

ENVIRONMENT CANADA

As at March 31

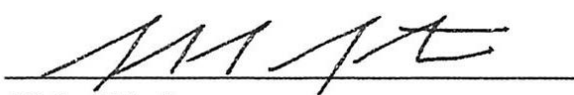
(in thousands of dollars)

	2014	2013
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$119,328	\$143,152
Vacation pay and compensatory leave	30,053	28,307
Deferred revenue (Note 5)	7,278	6,462
Lease obligation for tangible capital assets (Note 6)	11,761	12,365
Employee future benefits (Note 7)	27,501	74,341
Environmental liabilities (Note 12)	110,916	120,804
Other liabilities	33,592	33,794
Total net liabilities	340,429	419,225
Financial assets		
Due from Consolidated Revenue Fund	112,069	135,095
Accounts receivable and advances (Note 8)	18,980	29,554
Total gross financial assets	131,049	164,649
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 8)	(615)	(927)
Total financial assets held on behalf of Government	(615)	(927)
Total net financial assets	130,434	163,722
DEPARTMENTAL NET DEBT	209,995	255,503
Non-financial assets		
Prepaid expenses	1,251	1,338
Inventory (Note 9)	8,426	8,265
Tangible capital assets (Note 10)	375,757	389,541
Total non-financial assets	385,434	399,144
DEPARTMENTAL NET FINANCIAL POSITION	\$175,439	\$143,641

Contingent liabilities (Note 12)

Contractual obligations (Note 11)

The accompanying notes are an integral part of these financial statements



Michael Martin
Deputy Minister

Gatineau, Canada

Date:

AUG 27 2014



Carol Najm
Chief Financial Officer

Gatineau, Canada

Date:

AUG 26 2014

Statement of Operations and Departmental Net Financial Position (Unaudited)

ENVIRONMENT CANADA

For the year ended March 31

(in thousands of dollars)

	Planned results (Note 2a)		
	2014	2014	2013
			Restated (Note 14)
Expenses			
Conservation of Canada's Natural Environment	\$320,535	\$379,749	\$357,056
Weather Information	241,221	292,326	252,347
Threats from Pollution Minimized	324,376	276,391	310,102
Internal Services	230,991	188,010	179,724
Total expenses	1,117,123	1,136,476	1,099,229
Revenues			
Sales of goods and services	71,350	88,479	83,308
Other revenues	8,015	16,305	15,526
Revenues earned on behalf of Government	(13,816)	(14,500)	(13,887)
Total revenues	65,549	90,284	84,947
Net cost from continuing operations	1,051,574	1,046,192	1,014,282
Transferred operations (Note 14)			
Expenses	-	-	1,116
Revenues	-	-	-
Net cost of transferred operations	-	-	1,116
Net cost of operations before government funding and transfers	1,051,574	1,046,192	1,015,398
Government funding and transfers			
Net cash provided by Government	1,016,965	998,469	970,989
Change in due from Consolidated Revenue Fund	-	(23,026)	(6,092)
Services provided without charge by other government departments (Note 13)	99,601	103,749	100,541
Transfer of assets and liabilities from (to) other government departments (Note 14)	-	(1,202)	(46)
Net cost of operations after government funding and transfers	(64,992)	(31,798)	(49,994)
Departmental net financial position - Beginning of year	153,930	143,641	93,647
Departmental net financial position - End of year	\$218,922	\$175,439	\$143,641

Segmented information (Note 15)

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

Statement of Change in Departmental Net Debt (Unaudited)

ENVIRONMENT CANADA

For the year ended March 31

(in thousands of dollars)

	Planned results (Note 2a)		
	2014	2014	2013
Net cost of operations after government funding and transfers	(\$64,992)	(\$31,798)	(\$49,994)
Change due to tangible capital assets			
Acquisition of tangible capital assets (Note 10)	51,922	39,526	46,477
Amortization of tangible capital assets (Note 10)	(41,918)	(47,983)	(37,600)
Proceeds from disposal of tangible capital assets	-	(1,204)	(1,353)
Loss/gain on write-off and adjustments to tangible capital assets	-	(4,103)	731
Transfer to other government departments (Note 14)	-	(20)	(46)
Total change due to tangible capital assets	10,004	(13,784)	8,209
Change due to inventories (Note 9)	(55)	161	3,967
Change due to prepaid expenses	(23)	(87)	(217)
Net decrease in departmental net debt	(55,066)	(45,508)	(38,035)
Departmental net debt - Beginning of year	254,575	255,503	293,538
Departmental net debt - End of year	\$199,509	\$209,995	\$255,503

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

Statement of Cash Flows (Unaudited)

ENVIRONMENT CANADA

For the year ended March 31

(in thousands of dollars)

	2014	2013
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$1,046,192	\$1,015,398
Non-cash items:		
Services provided without charge by other government departments (Note 13)	(103,749)	(100,541)
Amortization of tangible capital assets (Note 10)	(47,983)	(37,600)
Loss/gain on write-off and adjustments to tangible capital assets	(4,103)	731
Variations in Statement of Financial Position:		
Decrease in accounts payable and accrued liabilities (Note 4)	23,824	18,340
(Increase) decrease in vacation pay and compensatory leave	(1,746)	1,248
Increase in deferred revenue (Note 5)	(816)	(75)
Decrease in employee future benefits (Note 7)	46,840	23,726
Decrease (increase) in environmental liabilities (Note 12)	9,888	(13,236)
Decrease in other liabilities	202	191
(Decrease) increase in accounts receivable and advances (Note 8)	(10,262)	13,361
Decrease in prepaid expenses	(87)	(217)
Increase in inventory (Note 9)	161	3,967
Transfer of assets and liabilities from Other Government Department (Note 14)	1,182	-
Cash used in operating activities	959,543	925,293
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets (Note 10)	39,526	46,477
Proceeds from disposal of tangible capital assets	(1,204)	(1,353)
Cash used in capital investing activities	38,322	45,124
FINANCING ACTIVITIES		
Lease payments for tangible capital assets	604	572
Cash used in financing activities	604	572
NET CASH PROVIDED BY GOVERNMENT OF CANADA	\$998,469	\$970,989

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

1. Authority and objectives

Environment Canada was established under legislation by *Environment Canada of the Environment Act*. Under this Act, the powers, duties and functions of the Minister of the Environment 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 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 Canada has authority under numerous pieces of legislation which affect how Environment 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 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 Canada is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to Environment 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. Planned results in the Statement of Operations and Departmental Net Financial Position are those reported in the Future-Oriented Financial Statements included in the 2013-2014 Report on Plans and Priorities.

(b) Net Cash Provided by Government

Environment Canada operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by Environment Canada is deposited to the CRF, and all cash disbursements made by Environment 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 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 takes place and gave rise to the revenue.
- ✓ Revenues that are non-respendable are not available to discharge Environment Canada's liabilities. While the Deputy Head is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT 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 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. Environment Canada's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Environment 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 environmentally contaminated sites as well as estimated costs related to obligations associated with future asset restoration.

- i. **Remediation liabilities** are recorded as accrued liabilities to recognize the estimated costs related to the management and remediation of contaminated sites where Environment Canada is obligated, or likely to be obligated, to remediate the sites. If the responsibility to remediate is undeterminable, the amount is disclosed as a contingent liability. If the responsibility to remediate is undeterminable and a reasonable estimate cannot be made, the nature, source and extent of contamination is disclosed as a contingent liability.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

2. Summary of significant accounting policies (continued)

(j) Inventory

Inventory held for future program delivery consists of spare parts, materials, supplies and test vehicles. It is valued at cost using the average cost method. If there is no longer any service potential, inventory is valued at the lower of cost or net realizable value.

Inventory held for resale consists of publications which will be sold in the future. It 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. Environment 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 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 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 CANADA

3. Parliamentary authorities

Environment 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 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)

	2014	2013
Net cost of operations before government funding and transfers	\$1,046,192	\$1,015,398
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (Note 10)	(47,983)	(37,600)
Loss/gain on write-off and adjustments to tangible capital assets	(4,103)	731
Services provided without charge by other government departments (Note 13)	(103,749)	(100,541)
Refunds/adjustments to previous years' expenses	4,875	3,769
Decrease in liabilities related to the workforce adjustment	2,020	13,400
Increase in accrued liabilities not charged to authorities	(2,504)	(7,851)
(Increase) decrease in vacation pay and compensatory leave	(1,746)	1,248
Decrease in employee future benefits (Note 7)	46,840	23,726
Decrease (increase) in environmental liabilities (Note 12)	9,888	(13,236)
Increase in inventory (Note 9)	161	3,967
Decrease in liabilities related to Nature Conservancy of Canada (NCC)	-	24,030
Other	(11,071)	15,565
	(107,372)	(72,792)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (Note 10)	39,526	46,477
Capital lease payments	604	572
	40,130	47,049
Current year authorities used	\$978,950	\$989,655

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

3. Parliamentary authorities (continued)

(b) Authorities provided and used:

(in thousands of dollars)

Authorities Provided

	2014	2013
Vote 1 - Operating expenditures	\$767,737	\$768,509
Vote 5 - Capital expenditures	63,789	60,795
Vote 10 - Grants & Contributions	119,599	171,638
Statutory amounts	108,260	115,818
	1,059,385	1,116,760

Less:

Authorities available for future years	(1,420)	(1,501)
Lapsed authorities	(79,015)	(125,604)
	(80,435)	(127,105)

Current year authorities used

	\$978,950	\$989,655
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4. Accounts payable and accrued liabilities

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

(in thousands of dollars)

	2014	2013
Accounts payable - Other government departments and agencies	\$11,813	\$9,661
Accounts payable - External parties	75,935	89,475
Total accounts payable	87,748	99,136
Accrued liabilities	31,580	44,016
Total accounts payable and accrued liabilities	\$119,328	\$143,152

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, 2014 an obligation for termination benefits for an estimated amount of \$1,800,000 (\$3,700,000 in 2012-2013) as part of accrued liabilities to reflect the estimated workforce adjustment costs. The actual cost may be different from the estimate.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT 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)	2014	2013
Opening balance	\$6,462	\$6,387
Amounts received		
Donations	314	1
Cost sharing project deposits	4,029	7,536
Revenue recognized	(3,527)	(7,462)
Closing balance	\$7,278	\$6,462

6. Lease obligation for tangible capital assets

Environment Canada has entered into agreements to lease certain equipment under capital leases with a cost of \$18,198,560 and accumulated amortization of \$8,734,872 as at March 31, 2014 (\$18,198,560 of cost and \$8,006,896 in accumulated amortization respectively as at March 31, 2013) as reflected in note 10. The obligations related to the upcoming years include Carleton University for which, on October 13, 2000, Environment 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)	2014	2013
Maturing year		
2014		\$1,300
2015	\$1,300	1,300
2016	1,300	1,300
2017	1,300	1,300
2018	1,300	1,300
2019 and thereafter	11,700	11,700
Total future minimum lease payments	16,900	18,200
Less: imputed interest (5.63%)	5,139	5,835
Balance of obligation under leased tangible capital assets	\$11,761	\$12,365

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

7. Employee future benefits

(a) Pension benefits

Environment 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 2013-2014 expense amounts to \$65,844,996 (\$63,897,813 in 2012-2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 times in 2012-2013) the employee contributions and, for Group 2 members, approximately 1.5 times (1.6 times in 2012-2013) the employee contributions.

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

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.

(in thousands of dollars)

	2014	2013
Accrued benefit obligation, beginning of year	\$74,341	\$98,067
Expense for the year	8,684	4,042
Benefits paid during the year	(55,524)	(27,768)
Accrued benefit obligation, end of year	\$27,501	\$74,341

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

8. Accounts receivable and advances

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

(in thousands of dollars)	2014	2013
Receivables - Other government departments and agencies	\$5,818	\$5,885
Receivables - External parties	13,360	24,089
Employee advances	80	118
Subtotal	19,258	30,092
Allowance for doubtful accounts on receivables from external parties	(278)	(538)
Gross accounts receivable	18,980	29,554
Accounts receivable held on behalf of Government	(615)	(927)
Net accounts receivable	\$18,365	\$28,627

9. Inventory

The following table presents details of the inventory.

(in thousands of dollars)	2014	2013
Spare parts	\$2,271	\$2,864
Publications	4,604	4,800
Test Vehicles	1,551	601
Total inventory	\$8,426	\$8,265

Inventory of spare parts and test vehicles is valued at cost using the average cost method and publications are valued at the lower of cost or net realizable value.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

10. Tangible capital assets

Cost

(in thousands of dollars)

	2013	Acquisitions	Adjustments ³	Disposals and Write-offs	2014
Land	\$25,408	\$295	-	\$282	\$25,421
Buildings	183,031	157	4,349	112	187,425
Works and infrastructure	6,663	43	377	77	7,006
Machinery and equipment	492,917	18,763	26,632	8,931	529,381
Vehicles ²	41,217	2,872	(171)	4,080	39,838
Leasehold improvements	35,474	-	2,180	-	37,654
Assets under construction ¹	141,841	17,396	(30,416)	7,194	121,627
Leased tangible capital assets	18,199	-	-	-	18,199
	\$944,750	\$39,526	\$2,951	\$20,676	\$966,551

Accumulated amortization

(in thousands of dollars)

	2013	Amortization	Adjustments ³	Disposals and Write-offs	2014
Buildings	\$114,864	\$6,499	(\$54)	\$87	\$121,222
Works and infrastructure	2,633	269	-	31	2,871
Machinery and equipment	373,890	34,745	(1,459)	7,152	400,024
Vehicles ²	28,456	3,788	306	3,921	28,629
Leasehold improvements	27,358	1,955	-	-	29,313
Leased tangible capital assets	8,008	727	-	-	8,735
	\$555,209	\$47,983	(\$1,207)	\$11,191	\$590,794

Net book value

(in thousands of dollars)

	2013	2014
Land	\$25,408	\$25,421
Buildings	68,167	66,203
Works and infrastructure	4,030	4,135
Machinery and equipment	119,027	129,357
Vehicles ²	12,761	11,209
Leasehold improvements	8,116	8,341
Assets under construction ¹	141,841	121,627
Leased tangible capital assets	10,191	9,464
Net Book Value	\$389,541	\$375,757

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-down for a net book value of \$4,178,731 reduced by transfers of tangible capital assets with Other Government Departments with a net effect of \$20,329 on the departmental net financial position. Adjustments include assets under construction of \$30,415,721 that have been placed in service.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

11. Contractual obligations

The nature of Environment Canada's activities can result in large multi-year contracts and obligations that have yet to be recorded as liabilities in the Accounts of Canada but for which Environment Canada is obligated to make future payments in order to meet its legal contractual requirements. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	Operating leases	Transfer payments	Other	Total
2015	\$7,915	\$58,157	\$22,551	\$88,623
2016	7,915	20,323	9,207	\$37,445
2017	7,915	16,925	7,306	\$32,146
2018	7,915	6,768	1,405	\$16,088
2019 and thereafter	189,383	-	11,243	\$200,626
Total	\$221,043	\$102,173	\$51,712	\$374,928

12. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into two categories (if applicable) as follows:

(a) Environmental Liabilities

Environment Canada has identified approximately 22 sites (26 sites in 2012-2013) where the department is obligated, or likely to be obligated, to remediate for which a remediation liability of \$110,916,041 (\$120,803,919 in 2012-2013) has been recorded in accrued liabilities.

In addition, Environment Canada has disclosed a contingent liability in the amount of \$96,893 for one site (\$270,603 in 2012-2013 for 2 sites) where the department has determined that it is not directly responsible, nor does it accept responsibility, however, there is uncertainty as to whether the department may be responsible. Environment Canada's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments of existing sites. These liabilities will be accrued by Environment Canada in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

Claims have been made against Environment 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 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 \$8,550,000 at March 31, 2014 (\$8,604,000 in 2012-2013).

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

13. Related party transactions

Environment Canada is related as a result of common ownership to all Government departments, agencies, and Crown corporations. Environment Canada enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, Environment 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 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 Canada's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2014	2013
Accommodation	\$52,277	\$49,219
Employer's contribution to the health and dental insurance plans	47,948	47,373
Legal services	2,336	2,788
Workers' compensation	1,188	1,161
Total	\$103,749	\$100,541

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 Works and Government Services 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 Canada's Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties :

(in thousands of dollars)	2014	2013
Accounts receivable - Other government departments and agencies	\$5,818	\$5,885
Accounts payable - Other government departments and agencies	\$11,813	\$9,661
Expenses - Other Government departments and agencies	\$169,107	\$163,456
Revenues - Other Government departments and agencies	\$28,456	\$30,590

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 CANADA

14. Transfers to/from other government departments

As part of Budget 2012, the Government of Canada announced its intention to dissolve the National Round Table on the Environment and the Economy (NRTEE) by April 1, 2013. This intention was approved through adoption (Royal Assent) of the Jobs, Growth and Long-term Prosperity Act (Bill C-38) on June 29, 2012.

The NRTEE has prepared their 2012-2013 financial statements on the liquidation basis of accounting given the discontinuance of all NRTEE operations at March 31, 2013. Any assets and liabilities that remain unsatisfied upon liquidation of the NRTEE became the liabilities of Her Majesty in right of Canada. These assets and liabilities have been transferred to Environment Canada on April 1, 2013 with a net book value of \$1,181,512.

During the year, Environment Canada transferred tangible capital assets with Other Government Departments with a net effect of \$20,329 (46,209 in 2012-2013) on the departmental net financial position.

(in thousands of dollars)	<u>2014</u>
Assets:	
Accounts receivable and advances	\$46
Tangible capital assets (Note 10)	<u>(20)</u>
Total assets transferred	26
Liabilities:	
Accounts payable and accrued liabilities	<u>1,228</u>
Total liabilities transferred	1,228
Adjustment to Environment Canada net financial position	<u><u>\$1,202</u></u>

In addition, on April 3, 2013, Shared Services Canada (SSC) was given the mandate to provide services related to the acquisition and provision of hardware and software, including security software for workplace technology devices (WTD) (formerly known as end user devices). Accordingly, the 2013 comparative figures have been reclassified on the Statement of Operations and Departmental Net Financial Position to present the expenses of the transferred operations. In 2013, the expenses of the transferred operations have been estimated to \$1,115,710.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

15. Segmented information

Presentation by segment is based on Environment 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	2014	2013
						Restated (Note 14)
Operations and administration						
Salaries and employee benefits	\$200,870	\$184,173	\$187,863	\$112,788	\$685,694	\$635,882
Professional and special services	25,732	14,268	24,286	26,486	90,772	93,865
Accommodation	17,605	11,193	15,020	11,403	55,221	50,396
Other contracted services	8,749	14,173	5,917	9,174	38,013	31,184
Travel	11,978	8,012	7,107	2,966	30,063	31,854
Machinery & equipment	8,149	4,719	4,502	4,871	22,241	19,816
Amortization of tangible capital assets	9,934	20,163	10,688	7,198	47,983	37,600
Rentals	18,081	3,625	1,743	3,900	27,349	24,494
Materials and supplies	10,636	13,291	6,384	2,342	32,653	32,454
Telecommunications	259	283	67	41	650	679
Equipment repair and maintenance	4,789	5,260	2,739	1,819	14,607	10,176
Postage	2,145	1,298	658	817	4,918	3,968
Information services – communications	975	370	1,745	392	3,482	3,434
Environmental liabilities expenditures	-	-	(9,888)	-	(9,888)	13,236
Loss/gain on write-off and adjustments to tangible capital assets	590	2,079	662	772	4,103	(731)
Earmarked fees and levies	914	-	66	-	980	859
Other	867	4,617	930	3,041	9,455	6,991
Total Operations and administration	322,273	287,524	260,489	188,010	1,058,296	996,157
Transfer payments						
Non-profit organizations	50,592	1,526	5,666	-	57,784	46,232
Other countries and international organizations	1,107	3,118	10,236	-	14,461	52,057
Other levels of governments within Canada	5,625	120	-	-	5,745	4,727
Other to individuals	-	38	-	-	38	55
Industry	152	-	-	-	152	1
Total Transfer payments	57,476	4,802	15,902	-	78,180	103,072
Total Expenses	379,749	292,326	276,391	188,010	1,136,476	1,099,229
Revenues						
Sales of goods and services	37,361	41,562	8,546	1,010	88,479	83,308
Other revenues	7,918	3,551	2,277	2,559	16,305	15,526
Revenues earned on behalf of Government	(5,774)	(4,024)	(2,138)	(2,564)	(14,500)	(13,887)
Total Revenues	39,505	41,089	8,685	1,005	90,284	84,947
Net cost from continuing operations	\$340,244	\$251,237	\$267,706	\$187,005	\$1,046,192	\$1,014,282

Notes to the Financial Statements (Unaudited)

ENVIRONMENT CANADA

16. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation. This includes amounts reported against program activities in the Statement of Operations and Departmental Net Financial Position which needed to be restated to comply with the Guidance from the Office of the Comptroller General (OCG) for Shared Services Canada (SSC) disclosure in the departmental financial statements.

Environment Canada

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting 2013-2014

Environment Canada

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting 2013-2014

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Annex to the Statement of Management Responsibility

1. Introduction

This document is an annex to Environment Canada's (EC) *Statement of Management Responsibility (SOMR) Including Internal Control Over Financial Reporting (ICFR)* for the fiscal year 2013-2014. This document provides summary information on the measures taken by EC to maintain an effective system of ICFR, including information on Internal Control Management (ICM) and assessment results and related action plan.

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

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

2.1 Internal Control Management

EC'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 monitoring program which includes an annual monitoring plan.

EC 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 and in accordance with the Treasury Board (TB) *Policy on Internal Control (PIC)*.

Internal Control Framework

In October 2013, an updated ICF was approved by the Deputy Minister, demonstrating an increased departmental focus on ICM and reinforcing management's leadership and commitment towards openness, honesty, integrity, and ethical behavior. The update to the ICF incorporates leading practices and departmental lessons learned over the last five years of ICFR assessments under the TB *PIC*.

The EC 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 EC 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 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, EC 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)** – EC'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)** – EC'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 as 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 external advisory committee, consisting of the DM and Associate DM (ex-officio participants) and three external members. EC's EAAC provides the DM 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 Annex to the SOMR. There are three in-person and two videoconference meetings held during the year.

- **Executive Management Committee (EMC)** – The EMC is the most senior management committee with oversight responsibilities for the Department. The EMC is responsible for monitoring the organization's response to corporate risks and ensuring the effectiveness of risk mitigation measures and that internal controls are in place to address key corporate risks.
- **Corporate Transformation Oversight Committee (CTOC)** – Supporting the EMC, the CTOC, formerly known as the Corporate Accountability and Administrative Renewal (CAAR) Committee, provides coordination and oversight on the integrated implementation of department and government-wide enabling business transformation initiatives and also provides support to managers and employees in adopting change.
- **Directors General Business Transformation Committee (DG BTC)** – Provides guidance to the CTOC with the mandate of enabling business transformation related to the DFMS Renewal transition to SAP. The DG BTC is comprised of the DGs representing most branches and regions of the Department.
- **Internal Control Management Division (ICMD)** – ICMD functions as a client-focused Centre of Expertise for ICM, inclusive of the assessment of the effectiveness of ICFR and for business process management. ICMD leads on the design and monitoring of internal controls by providing advice and developing standards to enable accountability through business process management and dedicates itself in attaining quality on a continuous basis. ICMD internal control assessments and remediation of controls 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 TBS Management Accountability Framework – Area of Management 7 – Finance.
- **Quality Assurance (QA) Unit** – The QA Unit is responsible for the implementation of the 2012 National Framework of Quality Assurance on Account Verification, monitoring key financial transactions and account verification controls, and informing ICMD on the status of these controls.

Governance and Oversight Measures

EC'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:

- EC continues to advance and support public service values and ethical standards for EC employees and managers by providing a mandatory online Values and Ethics Course. The Department anticipates that all EC employees will have completed this important training by fall 2014;
- an *Integrated Risk Management Framework*, a strengthened *Risk Governance Structure*, and a broadly communicated *Corporate Risk Profile* contribute to effective risk management at EC. Increased employee awareness, ongoing monitoring and timely mitigating activities ensure that emerging/changing risks are appropriately managed;
- the results of a comprehensive review of the *Delegation of Financial Signing Authorities and Designation Order Instrument* were implemented in 2013-2014;
- annual *Performance Management Agreements* for SDMs that assess accountabilities and financial management responsibilities;

- a *Public Accounts Letter of Representation* signed by SDMs 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; and
- training programs and regular communication to departmental employees on core areas of financial management and financial policies.

EC Monitoring Strategy for ICM

EC's Monitoring Strategy for ICM, a foundational document for EC's 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 EC'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 monitoring plans;
- comprehensive remediation monitoring activities that systematically address required adjustments stemming from assessments;
- the requirements for reporting to the Treasury Board Secretariat, EC's EAAC, CTOC, and the DG BTC regarding ICM, inclusive of ICFR;
- ICMD collaboration with multi-disciplinary areas of responsibility across EC; namely, with the Finance Branch QA 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 EC's ICM.

2.2 Service Arrangements Relevant to Financial Statements

EC 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 expenditures, and the procurement of goods and services, as per EC's Delegation of Authority and provides accommodation services;
- The Treasury Board Secretariat provides EC with information used to calculate some accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to EC; and

- Shared Services Canada (SSC) provides IT infrastructure services to EC in the areas of data centre and network services.

Specific Arrangements

EC has no specific arrangements in place at this time.

3. Departmental Assessment Results During Fiscal Year 2013-2014

During 2013-2014, EC completed all of its planned design effectiveness testing and completed or advanced design effectiveness testing of several additional control areas by completing documentation based on the Office of the Comptroller General (OCG) Common Financial Management Business Processes (CFM-BPs). EC also completed its operating effectiveness testing of key control areas expected for the year, while ongoing monitoring continued to be implemented as planned.

3.1 Design Effectiveness of Key Controls

Work Completed as Expected and Planned:

EC completed the design effectiveness testing of the following Key Business Processes:

- Manage Other Capital Assets
- Manage Real Property
- Manage Procure to Payment – Manage Commitments
- Pay Administration – HR and Systems
- Manage Travel (updated process)

Additional Work Completed:

In addition to the planned work, EC also completed the design effectiveness testing of the following Key Business Processes and Sub-processes:

- Manage Administration of Acquisition and Fleet Cards (updated process)
- Manage Delegation of Financial and Spending Authorities
- Manage Financial Close – Suspense Accounts
- Pay Administration – Employee Departure Form
- Environmental Liabilities¹

¹ While Environmental Liabilities is not an OCG CFM-BP, it is relevant for Departments that are part of the Federal Contaminated Sites Action Plan. In 2013-2014, EC mapped the “cradle-to-grave” Environmental Liabilities business processes that represent the complete management life cycle, inclusive of financial management processes.

EC also substantially advanced design effectiveness testing by formally completing the documentation for the following Key Business Processes and Sub-Processes:

- Manage Vendor Master Data
- Manage Travel – Events Expenditures Subsection
- Pay Administration – Extra Duty Pay
- Manage Procure to Payment – Low-dollar Value Contracts

It should be noted that plans established for 2013-2014 were impacted as a result of the in-year approval of EC's Departmental Financial Management System (DFMS) Renewal planned transition to SAP, a significant business transformation (BT) initiative. In support of the Business Blueprint and Realization Phases of this BT initiative, EC completed documentation (level 3 process maps and control matrices) for each of the 20 OCG CFM-BPs as well as for Environmental Liabilities. Furthermore, due to the resulting shift of departmental priorities, Manage Procure to Payment – Procurement was limited to documentation, with the remaining design effectiveness testing (initially planned for 2013-2014) to occur after the completion of the SAP Run Phase optimization and stabilization.

Remediation Actions:

As a result of design effectiveness testing, EC identified and is undertaking the following key design effectiveness remediation actions:

- Ensure supporting documentation of key controls within processes exist and are sufficient and comprehensive;
- Ensure key policy updates and underpinning roles and responsibilities are captured and rolled out by the policy holders on a timely basis; and
- Collaborate with multiple EC branches to design new work procedures and strengthen key controls.

3.2 Operating Effectiveness of Key Controls

Work Completed as Expected and Planned:

EC completed the operating effectiveness testing of Manage Procure to Payment – Finance.

Remediation Actions:

As a result of the operating effectiveness testing, EC identified and is undertaking the following key operating effectiveness remediation action:

- Review and clarify procedural steps pertaining to key controls, and the associated roles and responsibilities relating to payment processing and post-payment verification.

3.3 Ongoing Monitoring of Key Controls

Work Completed as Expected and Planned:

EC completed planned ongoing monitoring of the following key control areas:

- Entity Level Controls (ELC); and
- Information Technology General Controls (ITGC).

Remediation Actions:

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

- Utilize a tracking mechanism to ensure that all staff take the mandatory values and ethics course;
- Formalize oversight reporting on internal controls and risk management to the DM.

EC has continued to improve the application of ongoing monitoring of key ICFR controls by implementing the approach and methodology set forth in the EC Monitoring Strategy for ICM and the associated Annual Monitoring Plan. Building on the foundation set in 2012-2013, EC continued to focus on communication and stakeholder engagement, fostering a goal-oriented monitoring environment based on open dialogue and collaboration. To facilitate stakeholder communication, EC also developed guides on ICFR that describe all steps required by staff and stakeholders to conduct an assessment of the effectiveness of the Department's ICFR.

Furthermore, in 2013-2014 EC launched its quarterly monitoring and reporting of remediation actions, a key component of the EC Monitoring Strategy for ICM. Quarterly monitoring provides the CFO and stakeholders with updates on the Department's outstanding ICFR remediation actions and ensures progress in the control assessment plan is aligned with management expectations. In 2014-2015, given EC's approved DFMS Renewal planned transition to SAP, all outstanding remediation actions will be integrated into the scope of any planned ICFR work impacted by this initiative.

4. Environment Canada's ICFR Action Plan

4.1 Progress During Fiscal Year 2013-2014

During 2013-2014, EC 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 2012-2013 annex. Table 1 provides a summary of the progress made by EC based on the plans identified in the 2012-2013 annex.

Table 1 Work Completed in 2013-2014 Based on Action Plan in 2012-2013 Annex	
Element in previous year's (2012-2013) action plan	Updated Status at March 31, 2014
Manage Other Capital Assets and Manage Real Property – Documentation phase.	Documentation phase completed for Manage Other Capital Assets and Manage Real Property.
Manage Other Capital Assets, Manage Real Property and Manage Procure to Payment – Procurement – Design effectiveness testing.	Design effectiveness testing completed for Manage Other Capital Assets and Manage Real Property. For Manage Procure to Payment – Procurement, the scope of the ICFR assessment was revised due to EC's DFMS Renewal and was limited to documentation only.
Manage Procure to Payment, Manage Financial Close, Manage Other Capital Assets, Manage Real Property, Manage Inventory, Manage Travel, Pay Administration, Manage Grants and Contributions, and Manage Administration of Acquisition and Fleet Cards - Design effectiveness remediation.	Monitoring of remediation actions was conducted throughout 2013-2014 with quarterly status updates on remediation actions provided to the CFO. In 2013-2014, progress was made by EC in advancing remediation where the actions related to automated controls. However, given EC's DFMS Renewal, all outstanding remediation actions will be integrated into the scope of any planned ICFR work impacted by this initiative.
Manage Procure to Payment – Finance – Operating effectiveness testing.	Operating effectiveness testing completed for Manage Procure to Payment – Finance.
Manage Procure to Payment – Finance, Manage Financial Close, and Manage Travel – Operating effectiveness remediation.	Operating effectiveness remediation completed for Manage Procure to Payment – Finance. Operating effectiveness remediation for Manage Financial Close was deferred due to ongoing remediation actions relating to the design effectiveness of a key sub-process. For Manage Travel, outstanding operating effectiveness remediation actions were integrated into the design effectiveness testing that was conducted on the updated Manage Travel process.
ELCs and ITGCs – Ongoing monitoring.	Ongoing monitoring was performed throughout 2013-2014.

In addition to meeting the expectations set in the 2012-2013 annex, EC also made significant progress in assessing and improving its key controls by completing documentation (level 3 process maps and control matrices) of all 20 CFM-BPs, as well as Environmental Liabilities (cradle-to-grave). EC also completed design effectiveness testing of several Key Business Processes and Sub-processes as described under Additional Work Completed in Section 3.1 of this document.

4.2 Status and Action plan for Fiscal Year 2014-2015 and Subsequent Years

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

Building on progress made to date on previously established plans, EC focused its ICFR assessment efforts in 2013-2014 on aligning to the OCG CFM-BPs and on standardizing, streamlining, and integrating business processes in support of the DFMS Renewal transition to SAP, a major BT initiative that involves a hosted partnership and was approved mid-year. As a result of the planned transition to SAP, all planned ICFR activities are subject to and have been re-evaluated within the context of the DFMS Renewal and associated BT progress.

EC will be undertaking the documentation and design effectiveness testing of all affected CFM-BPs and associated controls using a risk-based approach throughout the SAP implementation timeline. Once SAP has been implemented and EC formally declares completion of the Run Phase stabilization and optimization, expected in 2015-2016, EC will begin to undertake the operating effectiveness testing of these affected CFM-BPs and associated controls using a risk-based approach. It should be noted that ICFR assessment activities for many of the Key Control Areas impacted by the DFMS Renewal are tentatively planned for 2017-18 and beyond[‡], falling outside of the scope of the ICM three year Controls Assessment Plan (see Table 2). Ongoing monitoring on Key Control Areas will begin thereafter, also using a risk-based approach.

The status and action plan for EC's ICFR Assessments for 2014-2015 and two subsequent years[‡] is shown in Table 2.

Table 2 ICM Three Year Controls Assessment Plan for 2014-2015 to 2016-2017* [‡]						
Key Control Areas	Assessment elements					
	Documentation	Design Effectiveness		Operating Effectiveness		Ongoing monitoring rotation
		Testing	Remediation	Testing	Remediation	
Entity Level Controls	Complete	Complete	Complete	Complete	Complete	Since 2013-14
Information Technology General Controls (ITGCs)	Complete	Complete	Complete	Complete	Complete	Since 2013-14
Manage Procure to Payment ²	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Financial Close	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Other Capital Assets	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Real Property	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Inventory	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Travel	2014-15	2015-16	2016-17	2016-17	2017-18	2017-18
Pay Administration	2014-15	2015-16	2016-17	2016-17	2017-18	2017-18

² In previous plans, Manage Procure to Payment was divided into three sub-processes (Finance, Procurement and Manage Commitments) but will be assessed as a single process moving forward.

Table 2 ICM Three Year Controls Assessment Plan for 2014-2015 to 2016-2017*[‡]						
Key Control Areas	Assessment elements					
	Documentation	Design Effectiveness		Operating Effectiveness		Ongoing monitoring rotation
		Testing	Remediation	Testing	Remediation	
Manage Grants and Contributions	2014-15	2015-16	2016-17	2016-17	2017-18	2017-18
Manage Administration of Acquisition and Fleet Cards	2014-15	2014-15	2015-16	2015-16	2016-17	2016-17
Manage Other Payments	2014-15	2015-16	2016-17	2016-17	2017-18	2017-18
Manage Vendor Master Data File	2014-15	2014-15	2015-16	2015-16	2016-17	2016-17
Manage Customer Master Data File	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Revenue, Receivables and Receipts	2014-15	2015-16	2016-17	2016-17	2017-18	2017-18
Manage Interdepartmental Settlements	2014-15	2015-16	2016-17	2016-17	2017-18	2017-18
Manage Planning and Budgeting	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Forecasting and Budget Review	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Collection of Overdue Receivables	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Manage Departmental Chart of Accounts	2014-15	2014-15	2015-16	2015-16	2016-17	2016-17
Manage Delegation of Financial and Spending Authorities	2014-15	2014-15	2015-16	2015-16	2016-17	2016-17
Manage Post Payment Verification	2014-15	2016-17	2017-18	2017-18	2018-19	2018-19
Environmental Liabilities	Complete	Complete	Complete	2014-15	2015-16	2015-16
<p>*Note: Certain CFM-BPs will be significantly impacted by EC's planned DFMS Renewal. Design Effectiveness and Operating Effectiveness Assessments of CFM-BPs will be determined using a risk-based approach once EC formally declares completion of the Run Phase (stabilization and optimization) of the SAP implementation.</p> <p>[‡]Note: ICFR assessment activities for many of the Key Control Areas impacted by the DFMS Renewal are tentatively planned for 2017-18 and beyond[‡], falling outside of the scope of the three year Controls Assessment Plan.</p>						

In completing the action plan as presented, EC will ensure a timely progression is made towards a mature system of ICM that provides the Government and Canadians with assurance regarding the reliability of its financial reporting contained within departmental financial statements and Public Accounts. This progression reflects EC's commitment to continue advancement towards more robust and auditable financial statements.