



CONSOLIDATED DEPARTMENTAL FINANCIAL STATEMENTS 2017-2018 (UNAUDITED)



National
Défence

Défense
nationale

Canada



Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2018, and all information contained in these statements rests with the management of the Department of National Defence (department). These financial statements have been prepared by management using the Government of Canada's accounting policies, which are based on Canadian public sector accounting standards (PSAS), with the exception of the accounting for pension benefits where the presentation and results using the stated accounting policies do not result in any significant differences from PSAS.

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

Management is also responsible for maintaining an effective system of Internal Control over Financial Reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the Financial Administration Act and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the department; and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify, 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, 2018 was completed in accordance with the Treasury Board Policy on Financial Management and the results and action plans are illustrated in the annex.

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

The financial statements of the department have not been audited.

Jody Thomas

Deputy Minister
Ottawa, Canada

Date: August 22, 2018

Claude Rochette CPA, CMA

Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)



As at March 31

(in thousands of dollars)	2018	2017 (Restated note 20)
Liabilities		
Accounts payable and accrued liabilities (note 4)	3,299,608	2,126,892
Vacation pay and compensatory leave	188,617	178,276
Environmental liabilities (note 5)	613,538	720,489
Deposits and trust accounts (note 6)	4,506	4,350
Deferred revenue (note 7)	9,842	12,200
Canadian Forces pension and insurance accounts (note 8)	696,823	709,293
Lease obligations for tangible capital assets (note 9)	169,849	241,012
Employee future benefits (note 10)	654,463	772,285
Total liabilities	5,637,246	4,764,797
Financial assets		
Due from Consolidated Revenue Fund	2,731,536	2,314,969
Accounts receivable (note 11)	979,489	449,594
Loans and advances (note 12)	46,132	50,326
Total gross financial assets	3,757,157	2,814,889
Financial assets held on behalf of government		
Accounts receivable (note 11)	(5,642)	(5,232)
Total financial assets held on behalf of government	(5,642)	(5,232)
Total net financial assets	3,751,515	2,809,657
Departmental net debt	1,885,731	1,955,140
Non-financial assets		
Prepaid expenses (note 13)	645,712	728,397
Inventory (note 14)	5,666,785	5,810,642
Tangible capital assets (note 15)	33,485,695	32,552,926
Total non-financial assets	39,798,192	39,091,965
Departmental net financial position	37,912,461	37,136,825

Contingent liabilities (note 16)

Contractual obligations and contractual rights (note 17)

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

Jody Thomas
Deputy Minister
Ottawa, Canada
Date: August 22, 2018

Claude Rochette CPA, CMA
Chief Financial Officer

CONSOLIDATED STATEMENT OF OPERATIONS AND DEPARTMENTAL NET FINANCIAL POSITION (UNAUDITED)



For the year ended March 31

(in thousands of dollars)	2018 Planned Results	2018	2017 (Restated note 20)
Expenses			
Defence Combat and Support Operations	1,295,658	1,915,252	1,527,724
Defence Services and Contributions to Government	464,429	521,353	435,910
Defence Ready Force Element Production	3,621,102	4,903,530	3,862,060
Defence Capability Element Production	13,773,701	14,684,269	13,000,969
Defence Capability Development and Research	425,026	544,447	453,908
Internal Services	492,719	629,704	422,064
Total expenses	20,072,635	23,198,555	19,702,635
Revenues			
Sale of goods and services	397,774	384,421	409,778
Gains on disposals of assets	21,064	27,067	18,291
Other	80,023	13,698	14,779
Interest and gains on foreign exchange	9,913	18,912	15,170
Revenues earned on behalf of government	(25,851)	(10,387)	(10,192)
Total revenues	482,923	433,711	447,826
Net cost of operations	19,589,712	22,764,844	19,254,809
Government funding and transfers			
Net cash provided by government		22,250,082	19,107,537
Change in due from Consolidated Revenue Fund		416,567	(482,896)
Services provided without charge by other government departments (note 18)		858,983	773,556
Transfer of Accounts receivable to Public Services and Procurement Canada		(16)	(14)
Transfer of assets and liabilities from other government departments (note 15)		14,864	195
Net cost of operations after government funding and transfers		(775,636)	(143,569)
Departmental net financial position – beginning of year		37,136,825	36,993,256
Departmental net financial position – end of year		37,912,461	37,136,825

Segmented information (note 19)

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

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

CONSOLIDATED STATEMENT OF CHANGE IN DEPARTMENTAL NET DEBT (UNAUDITED)



For the year ended March 31

(in thousands of dollars)	2018	2017 (Restated note 20)
Net cost of operations after government funding and transfers	(775,636)	(143,569)
Change due to tangible capital assets		
Acquisition of tangible capital assets	3,512,577	2,757,236
Amortization of tangible capital assets	(2,527,550)	(2,624,309)
Proceeds from disposal of tangible capital assets	(23,774)	(18,274)
Loss on disposals of tangible capital assets	(90,260)	(167,918)
Adjustments of tangible capital assets	46,912	55,269
Transfer from other government departments	14,864	195
Total change due to tangible capital assets	932,769	2,199
Change due to inventory	(143,857)	(253,475)
Change due to prepaid expenses	(82,685)	84,239
Net decrease in departmental net debt	(69,409)	(310,606)
Departmental net debt - beginning of year	1,955,140	2,265,746
Departmental net debt - end of year	1,885,731	1,955,140

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

CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)



For the year ended March 31

(in thousands of dollars)	2018	2017 (Restated note 20)
Operating activities		
Net cost of operations before government funding and transfers	22,764,844	19,254,809
Non-cash items included in net cost of operations:		
Amortization of tangible capital assets	(2,527,550)	(2,624,309)
Loss on disposals of tangible capital assets	(90,260)	(167,918)
Adjustments of tangible capital assets	46,912	55,269
Services provided without charge by other government departments	(858,983)	(773,556)
Transition payments for implementing salary payments in arrears	16	14
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable	529,485	53,259
Increase (decrease) in loans and advances	(4,194)	11,274
Increase (decrease) in prepaid expenses	(82,685)	84,239
Increase (decrease) in inventory	(143,857)	(253,475)
Decrease (increase) in accounts payable and accrued liabilities	(1,172,716)	477,402
Decrease (increase) in vacation pay and compensatory leave	(10,341)	(1,348)
Decrease (increase) in environmental liabilities	106,951	70,955
Decrease (increase) in deposits and trust accounts	(156)	(78)
Decrease (increase) in deferred revenue	2,358	617
Decrease (increase) in Canadian Forces pension and insurance accounts	12,470	(14,075)
Decrease (increase) in employee future benefits	117,822	128,516
Cash used in operating activities	18,690,116	16,301,595
Capital investing activities		
Acquisitions of tangible capital assets	3,512,577	2,757,236
Proceeds from disposal of tangible capital assets	(23,774)	(18,274)
Cash used in capital investing activities	3,488,803	2,738,962
Financing activities		
Lease payments for tangible capital assets	71,163	66,980
Cash used in financing activities	71,163	66,980
Net cash provided by Government of Canada	22,250,082	19,107,537

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



For the year ended March 31

1. Authority and objectives

> Authorities

The Department of National Defence (department) was established by the National Defence Act (NDA). Under section 3 of the NDA, the Minister of National Defence presides over the department. Under section 4 of the NDA, the Minister has the management and direction of the Canadian Forces and of all matters relating to National Defence, as well as being responsible for the construction and maintenance of all defence establishments and works for the defence of Canada, and research relating to the defence of Canada and to the development of and improvements in materiel.

> Objectives

Strong, Secure, Engaged is the new defence policy presenting a new vision and approach to defence by the Government of Canada. Strong, Secure, Engaged presents a new strategic vision in which Canada is:

- strong at home, its sovereignty well defended by a Canadian Armed Forces ready to assist in times of natural disaster, other emergencies and search and rescue;
- secure in North America, active in a renewed defence partnership in the North American Aerospace Defense Command and with the United States; and
- engaged in the world, with the Canadian Armed Forces doing its part in Canada's contributions to a more stable, peaceful world, including through peace support operations and peacekeeping.

Effective fiscal year 2014-15, Defence implemented a new Program Alignment Architecture (PAA) that more accurately represents and articulates the "Business of Defence". It describes what Defence provides to and for Canadians while also illustrating how those effects are created and delivered. This revised structure better positions Defence to address program granularity and interdependencies required for strategic reviews and to institutionalize a "Management for Results" paradigm that

supports the strategic management of Defence. It also provides a structure that better lends itself to conveying Defence's performance story and demonstrating results.

The activities associated with the programs were aligned, and in many cases regrouped, in the new PAA as:

(a) Defence Combat and Support Operations

The Defence Combat and Support Operations Program delivers military power in combat, security, stability and surveillance operations in response to armed threats, or potential armed aggression, for the purpose of protecting Canadian sovereignty, upholding the values of Canadians, and defending the interests of the Government of Canada. Results are achieved through this program by the application of Defence capabilities in domestic, continental and international domains, either independently or in combination with allies, where the primary focus is to inflict military effects against threats.

The term Defence capability is a collective term that refers to the ability of a military force to achieve a desired effect against a threat during the execution of a Defence operation (or the delivery of a Defence service) by executing tasks according to understood concepts, doctrines and standards. The military forces delivered by Defence are composed of force elements which are organizational entities that are in-turn composed of members of the CAF, and in some cases personnel from the department.

Force elements integrate people, with specialized information and expertise, materiel (e.g., equipment, platforms, and weapon systems) and in some cases real property, so that capabilities can be applied against threats. Force elements have different sizes and compositions according to the capabilities they must apply during an operation.

This program is underpinned by the NDA, defence policy, international treaties and agreements, membership in international organizations, and direction received by the Government of Canada. The sub-programs beneath this program target a range of threats across a variety of



For the year ended March 31

operational contexts via different delivery mechanisms in different geographic regions.

(b) Defence Services and Contributions to Government

The Defence Services and Contributions to Government Program aims to support the delivery of Canadian government safety and security initiatives and encourage recognition and pride in Canada and the Canadian military. This is accomplished through the provision of unique Defence services in support of other elements of government or the Canadian public.

To encourage and share pride and awareness of Canada's military heritage, contributions, and leadership, Defence provides unique services and opportunities for outreach, awareness, preservation and development. Defence's unique services also include operations conducted to ensure or enhance the security, safety, stability and/or well-being of Canadians, or international populations in peril, in accordance with Canadian values and the interests of the Canadian government, in situations where there may be a need to defend against armed threats but where this is not the primary focus.

The operations are delivered through the employment of force elements to achieve a desired effect within specific contexts through execution of tasks according to understood concepts, doctrines and standards. The force elements delivered by Defence are organizational entities which are composed of members of the CAF and in some cases personnel from the department. Force elements have different sizes and compositions according to the capabilities they must apply during an operation.

Defence remains consistently ready to employ force elements under this program; however, significant operations do not always occur every fiscal year.

(c) Defence Ready Force Element Production

The Defence Ready Force Element Production Program produces and renews force elements on a continual basis for use in Defence Combat and Support Operations, as well as for the delivery of Defence Services and

Contributions to Government, in order to increase the likelihood of success and decrease risk of failure in the defence of Canada and promotion of Canadian interests. Results are delivered by assembling force elements from the fundamental elements of Defence capability (i.e. military personnel, materiel and information systems, information, and, in some cases, real property), and integrating them through various training and certification programs so that they have the requisite amount of readiness in order to fulfill predefined roles within the operations for which they are destined.

The term readiness refers to the volume, endurance, responsiveness and capability attributes of force elements that are not employed. These attributes are used to determine the degree of risk that would be associated with assigning them to fulfill perspective role(s) within on-going or contingency operations. The force elements produced by the Defence Ready Force Element Production Program are organized into portfolios according to the maritime, land, aerospace and special operations environments in which they operate. There are also portfolios for force elements that operate jointly across these domains and force elements that provide common support functions.

Across these portfolios, force elements are produced to meet readiness targets. These readiness targets ensure that production can be sustained over short- and medium-term time horizons and that the number of force elements available for employment in on-going and contingency operations is in accordance with acceptable levels of operational risk.

(d) Defence Capability Element Production

The Defence Capability Element Production Program aims to sustain Defence by producing and maintaining portfolios of the fundamental Defence capability elements so that they are continuously available in the appropriate quantity, combination and condition to sustain the chain of programs delivered by Defence, from the Defence Capability Development and Research Program through to the Defence Ready Force Element Production Program.



For the year ended March 31

These programs collectively give Defence the ability to conduct Defence Combat and Support Operations as well as deliver Defence Services and Contributions to Government. The primary elements of Defence capability are military personnel, materiel and information systems, information, and real property. A fundamental focus of the Defence Capability Element Production Program is to provide an adequate and sustained supply of individual military personnel and materiel in the near-term and over long-term time horizons so that they can be integrated to produce force elements within the Defence Ready Force Element Production Program.

Results are achieved through subordinate programs, each of which focuses on a separate portfolio: military personnel and organization; materiel; real property; or information systems. A lifecycle approach is used to manage each portfolio. The essential aspects of the lifecycle approach are sub-sub-programs that provide the principle lifecycle functions: introduction into service; maintenance, upgrade and supply; release from service; portfolio management; and overarching co-ordination and control. The character of activity that occurs within each of these primary functions depends on the portfolio of entities being produced and therefore the desegregation of the lifecycle functions into sub-sub-programs is unique to each portfolio. The authority for this program is derived from the NDA.

(e) Defence Capability Development and Research

The Defence Capability Development and Research Program seeks to provide the analytical basis and knowledge to anticipate foreseeable changes in the threat and security environment and to determine the associated demand for Defence capabilities across near- and long-term time horizons in order to enable evidence-based strategic decisions that align the introduction, modification and divestment of Defence capabilities and guide the application of existing capabilities with an acceptable level of risk.

Results are achieved by: establishing and monitoring the fulfillment of near-term targets for readying force elements and conducting Defence operations; identifying lessons from past operations; assessing defence and security trends; developing and integrating new knowledge and systems/methods for conducting operations; developing approaches and conducting Defence capability analyses at strategic, operational and tactical levels; present to future capability assessments; designing and assessing defence alternatives; providing Defence capability oversight and expertise; and Defence capability use planning for sustainable Defence capabilities in future time horizons.

As such, this program sustains Defence by providing key products and services to the Defence Capability Element Production Program, the Defence Ready Force Element Production Program and parts of the Defence Combat and Support Operations, and Defence Services and Contributions to Government Programs.

This program also directly enables the management and oversight of Defence as a whole.

(f) Internal Services

Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. Internal services include only those activities and resources that apply across an organization, and not those provided to a specific program. The groups of activities are Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; and Acquisition Services.



For the year ended March 31

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 (PSAS), with the exception of the accounting for pension benefits where the presentation and results using the stated accounting policies do not result in any significant differences from PSAS. The pension benefits for members of the CAF follow accounting requirements as outlined in the Treasury Board Accounting Standards, as described in note 2(g) (i), which require the actuarial surpluses or deficiencies to be recognized in the financial statements of the Government of Canada, and not the department. Further disclosure is presented in note 8.

Significant accounting policies are as follows:

(a) Parliamentary authorities

The department is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to the department 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 Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated 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 Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the 2017-18 Departmental Plan. Planned results are not presented in the "Government funding and transfers" section of the Consolidated Statements of Operations and Departmental Net Financial Position and in the Consolidated Statement of Change in Departmental Net Debt because these amounts were not included in the 2017-18 Departmental Plan.

(b) Consolidation

These consolidated financial statements include the accounts of the sub-entities for which the Deputy Minister (DM) is accountable for. The accounts of these sub-entities have been consolidated with those of the department, and all inter-organizational balances and transactions have been eliminated. The department is comprised of the DND, the CAF and several related organizations and agencies in the Defence Portfolio, all of which carry out the Defence mission and are part of the Defence Services Program. Organizations and agencies that are part of these consolidated financial statements include the following:

- Canadian Cadet Program and the Junior Canadian Rangers
- Canadian Forces Housing Agency
- Defence Research and Development Canada
- Office of the Ombudsman for the Department of National Defence and Canadian Forces
- Office of the Judge Advocate General

The Military Grievances External Review Committee, the Military Police Complaints Commission, Communications Security Establishment Canada and the Office of the Communications Security Establishment Commissioner are excluded from the consolidation because these organizations are not part of the Defence Services Program, although they fall under the responsibility of the Minister of National Defence.

(c) Net cash provided by Government

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



For the year ended March 31

(d) Amounts due from or to the 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 the department is entitled to draw from the CRF without further authorities to discharge its liabilities.

(e) Revenues

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received in advance from external parties for the delivery of goods and rendering of services are recorded upon receipt as deferred revenue. Revenues are then recognized in the period in which the related expenses are incurred.
- 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-respendable are not available to discharge the department's liabilities. While the DM is expected to maintain accounting control, she 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.

(f) 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 (or the entitlements) criteria (for grants) or the performance conditions (for contributions) established for the transfer payment

program. In situations where grant payments do not form part of an existing program, 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.

- 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, worker's compensation coverage and legal services are recorded as operating expenses at their estimated cost.

(g) Employee future benefits

(i) Pension benefits

Eligible civilian employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. The department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The department's responsibility with regard to the Plan is limited to its contributions as determined by the Chief Actuary of Canada. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

The department administers pension benefits for members of the CAF, both Regular and Reserve forces. The department contributes towards current and past service of members, and funds any actuarial shortfalls determined by the Chief Actuary of Canada. In addition to the regular contributions, current legislation also requires the department to make contributions for actuarial deficiencies in the pension



For the year ended March 31

plans. These contributions by the department are expensed in the year they are incurred. This accounting treatment corresponds to the funding provided to departments through Parliamentary authorities. All assets and liabilities related to the CAF pension plan are not reflected in the department's financial statements. As the Plan's sponsor, the Government of Canada, recognises the plans assets and the actuarial estimate of the liabilities in the consolidated financial statements of the Government of Canada.

(ii) Severance benefits

The accumulation of severance benefits for voluntary departures ceased for applicable employee groups and CAF members. The remaining obligation for employees who did not withdraw benefits is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the government as a whole. The obligation related to the severance benefits earned by CAF members is calculated using information derived from the results of the actuarially determined liability for severance benefits for the CAF population.

(h) Accounts and loans receivable

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

(i) Inventory

Inventories are valued at cost, using a weighted average formula, and are comprised of ammunition and inventory supplies held for future program delivery and are not primarily intended for resale. Inventory managed by contractors and not held in the Defence Resource Management Information System (DRMIS) is valued according to the cost method used by the contractors (first-in, first-out (FIFO), last-in, first-out (LIFO), historical cost or moving weighted average). Inventory identified for disposal or surplus are excluded from the value of inventory as no value is expected to be recovered (for details, see note 14).

(j) Tangible capital assets

The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and, except for land, are amortized to expense over the estimated useful lives of the assets, as described in Note 15. All tangible capital assets and leasehold improvements having an initial cost of \$30,000 or more are recorded at their acquisition cost. Tangible capital assets do not include works of art and historical treasures that have cultural, aesthetic or historical value, assets located on First Nations reserves and museum collections. Asset Pooled Items (API) are tangible capital assets which can include spare parts that support higher level tangible capital assets with useful lives greater than one year. They are intended to be used on a continuing basis, and are part of an asset class or pool where items may be below the capitalization threshold individually but are typically purchased or held in large quantities. These items are grouped in pools and the pools are treated as capital assets from a financial perspective.



For the year ended March 31

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

Asset Class	Amortization Period
Buildings	10-40 years
Works	5-40 years
Machinery and equipment	3-30 years
Informatics hardware	3-30 years
Informatics software	2-10 years
Arms and weapons	3-30 years
Other equipment	5-30 years
Ships and boats	10-30 years
Aircraft	20-40 years
Non-military motor vehicles	2-30 years
Military vehicles	3-25 years
Other vehicles	4-30 years
Leasehold improvements	Lesser of useful life of the improvement or term of lease
Leased tangible capital assets	Economic life or term of lease

API are amortized at the estimated useful life of the pool.

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.

(k) Contingent liabilities

Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fails 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, the contingency is disclosed in the notes to the financial statements.

(l) Contingent assets

Contingent assets are possible assets which may become actual assets when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur, the contingent asset is disclosed in the notes to the financial statements.

(m) Environmental liabilities

An environmental liability for the 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 future cash flows required to settle or otherwise extinguish a liability are estimable, predictable and expected to occur over extended future periods, a present value technique is used. The discount rate used reflects the government's cost of borrowing, associated with the estimated number of years to complete remediation.

A liability for unexploded explosive ordnance (UXO) affected legacy sites is recognized when there is an appropriate basis for measurement and a reasonable estimate can be made. These liabilities are present obligations arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.



For the year ended March 31

The recorded liabilities are adjusted each year, for present value adjustments, inflation, new obligations, changes in management estimates and actual costs incurred. If the likelihood of the government's responsibility is not determinable, a contingent liability is disclosed in the notes to the consolidated statements.

(n) Transactions involving foreign currencies

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at March 31st. Gains resulting from foreign currency transactions are included as revenues in Interest and gains on foreign exchange, and losses from foreign currency transactions are included in other expenses in the Consolidated Statement of Operations and Departmental Net Financial Position.

(o) 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 and accompanying notes at March 31st. 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, remediation liabilities, the liability for employee future benefits, allowance for doubtful accounts, allowances to estimate pricing errors and value of dormant inventory and the useful life of tangible capital assets. Actual results could significantly differ from those estimates. Management's estimates are reviewed periodically and, as adjustments become

necessary, they are recorded in the financial statements in the year they become known.

Environmental liabilities are subject to measurement uncertainty as discussed in note 5 due to the evolving technologies used in the estimation of the costs for remediation of contaminated sites, the use of discounted present value of future estimated costs, and the fact that not all sites have had a complete assessment of the extent and nature of remediation or retirement. Changes to underlying assumptions, the timing of the expenditures, the technology employed, or the revisions to environmental standards or changes in regulatory requirements could result in significant changes to the environmental liabilities recorded.

(p) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- (i) services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- (ii) certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.



For the year ended March 31

3. Parliamentary authorities

The department receives most of its funding through annual parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and the Consolidated Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, the department 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)	2018	2017 (Restated note 20)
Net cost of operations before government funding and transfers	22,764,844	19,254,809
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (note 15)	(2,527,550)	(2,624,309)
Services provided without charge by other government departments (note 18)	(858,983)	(773,556)
Decrease (increase) in employee future benefits	117,822	128,516
Refund of previous year's expenses	84,580	41,899
Decrease (increase) in vacation pay and compensatory leave	(10,341)	(1,348)
Loss on disposals of capital assets	(90,260)	(167,918)
Adjustments of tangible capital assets	46,912	55,269
Refund of program expenditures	63,123	37,225
Decrease (increase) in deferred revenue	2,358	617
Decrease (increase) in accrued liabilities not charged to authorities	(149,706)	(4,080)
Bad debt expense	(31,807)	(40,238)
Decrease (increase) in environmental liabilities (note 5)	106,951	70,955
Proceeds from sale of assets	(23,774)	(18,274)
Miscellaneous	20,922	(40,124)
Total items affecting net cost of operations but not affecting authorities	(3,249,753)	(3,335,366)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (note 15)	3,512,577	2,757,236
Decrease (increase) in lease obligations for tangible capital assets	71,163	66,980
Increase (decrease) in inventory purchases net of usage and adjustments	(143,857)	(253,475)
Increase (decrease) in prepaid expenses	(82,685)	84,239
Transition payments for implementing salary payments in arrears	16	14
Revenues collected from prior year receivables	4,782	31,717
Total items not affecting net cost of operations but affecting authorities	3,361,996	2,686,711
Current year authorities used	22,877,087	18,606,154



For the year ended March 31

3. Parliamentary authorities (continued)

(b) Authorities provided and used

(in thousands of dollars)	2018	2017
Vote 1 – Operating expenditures	16,050,430	14,304,176
Vote 5 – Capital expenditures	3,885,528	3,504,238
Vote 10 – Grants & contributions	177,004	162,993
Statutory amounts	3,464,975	1,498,958
Less:		
Authorities available for future years	(676,686)	(807,671)
Frozen allotments and other planned lapses	(24,164)	(56,540)
Current year authorities used	22,877,087	18,606,154

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)	2018	2017
Accounts payable – other government departments and agencies	91,218	129,051
Accounts payable – external parties	2,117,702	1,195,125
Total accounts payable	2,208,920	1,324,176
Accrued liabilities	1,090,688	802,716
Total accounts payable and accrued liabilities	3,299,608	2,126,892



For the year ended March 31

5. Environmental liabilities

(a) Remediation of contaminated sites

The government's "Federal Approach to Contaminated Sites", sets out a framework for management of contaminated sites using a risk-based approach. Under this approach the government has inventoried the contaminated sites identified on federal lands, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aids in identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to human health and the environment.

The department has identified approximately of 999 sites (1,073 sites in 2016-17) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the department has identified approximately 255 sites (279 sites in 2016-17) where action is required and for which a gross liability of \$456,079,238 (\$509,885,970 in 2016-17) has been recorded. This liability estimate has been determined based on site assessments performed by environmental experts.

In addition, a statistical model based upon a projection of the number of sites that will proceed to remediation and upon which current and historical costs are applied is used to estimate the liability for a group of unassessed sites. As a result, there are approximately 216 unassessed sites (226 in 2016-17) where a liability estimate of \$35,333,838 (\$26,753,843 in 2016-17) has been recorded using this model.

These two estimates combined, totaling \$491,413,076 (\$536,639,813 in 2016-17), represents management's best estimate of the costs required to remediate the sites to the current minimum standard for its use prior to contamination, based on the information available at the financial statement date.

For the remaining 528 sites (568 sites in 2016-17), no liability for remediation has been recognized. Some of these sites are at various stages of testing and evaluation and if remediation is required, liabilities will be reported as soon as a reasonable estimate can be determined. For other sites, the department does not expect to give up any future economic benefits (there likely is no significant environmental impact or human health threats). These sites will be re-examined and a liability for remediation will be recognized if future economic benefits will be given up.

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, 2018, and March 31, 2017. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 1.9% (2% in 2016-17). Inflation is included in the undiscounted amount. The Government of Canada's cost of borrowing by reference to the actual zero-coupon yield curve for Government of Canada bonds has been used to discount the estimated future expenditures. The March 2018 rates range from 1.79% (0.76% in 2017) for a 2 year term to 2.24% (2.39% in 2017) for a 30 or greater year term.



For the year ended March 31

5. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

2018			
Nature and source	Number of sites	Estimated liability	Estimated undiscounted expenditure
Military and Former Military Sites ⁽¹⁾	354	329,710,714	350,031,882
Fuel Related Practices ⁽²⁾	358	36,598,862	39,068,128
Landfill / Waste Sites ⁽³⁾	138	29,814,018	31,978,355
Engineering Assets / Air and Land Transportation ⁽⁴⁾	10	806,500	881,577
Marine Facilities / Aquatic Sites ⁽⁵⁾	19	4,970,690	6,319,134
Office / Commercial / Industrial Operations ⁽⁶⁾	52	17,682,998	21,804,908
Other ⁽⁷⁾	68	71,829,294	76,748,533
Totals	999	491,413,076	526,832,517

2017			
Nature and source	Number of sites	Estimated liability	Estimated undiscounted expenditure
Military and Former Military Sites ⁽¹⁾	371	379,324,959	394,376,543
Fuel Related Practices ⁽²⁾	386	36,109,323	38,228,759
Landfill / Waste Sites ⁽³⁾	154	37,748,626	39,431,706
Engineering Assets / Air and Land Transportation ⁽⁴⁾	10	907,985	1,077,986
Marine Facilities / Aquatic Sites ⁽⁵⁾	20	12,936,991	13,043,182
Office / Commercial / Industrial Operations ⁽⁶⁾	64	19,239,779	19,432,096
Other ⁽⁷⁾	68	50,372,150	53,084,323
Totals	1073	536,639,813	558,674,595

(1) Contamination associated with the operations of military and former military sites where activities such as fuel handling and storage activities, waste sites, metals/PCB-based paint used on buildings resulted in former or accidental contamination, e.g. petroleum hydrocarbons, PCBs, heavy metals. Sites often have multiple sources of contamination.

(2) Contamination primarily associated with fuel storage and handling, e.g. accidental spills related to fuel storage tanks or former fuel handling practices, e.g. petroleum hydrocarbons, polyaromatic hydrocarbons and BTEX (benzene, toluene, ethylbenzene and xylenes).

(3) Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, other organic contaminants, etc.



For the year ended March 31

5. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

(4) Contamination associated with the operations of engineered assets such as airports, railways and roads where activities such as fuel storage/handling, waste sites, firefighting training facilities and chemical storage areas resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX and other organic contaminants. Sites often have multiple sources of contamination.

(5) 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.

(6) Contamination associated with the operations of 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.

(7) Contamination from other sources, e.g. use of pesticides, herbicides, fertilizers at agricultural sites; use of PCBs, firefighting training areas, firing ranges and training facilities, etc.

Also during the year 149 sites (121 sites in 2016-17) were closed as they were either remediated or assessed to confirm that they no longer meet all the criteria required to record a liability for contaminated sites.

(b) Other environmental liabilities

The department has identified approximately 643 unexploded explosive ordnance (UXO) suspected sites (635 sites in 2016-17) for which clearance action may be necessary. Of these sites, 43 sites (68 sites in 2016-17) are confirmed UXO affected sites. Based on the department's best estimates, a liability of \$122 million (\$184 million in

2016-17) has been recorded for clearance action on 10 sites of the confirmed UXO sites (10 sites in 2016-17).

Remediation has been done on 7 of the sites (7 of the sites in 2016-17). The remaining 633 suspected sites (624 sites in 2016-17) are currently in the assessment stage and a reasonable estimate cannot yet be determined. Of these sites, the obligation for clearance action is likely for 33 sites, indeterminable for 78 sites and unlikely for 522 sites.

The department's ongoing efforts to assess contaminated sites and UXO affected sites may result in additional environmental liabilities.



For the year ended March 31

6. Deposits and trust accounts

The following table presents details of the department's deposits and trust accounts:

(in thousands of dollars)	2018	2017
Contractor security deposits		
Deposits, beginning of year	3,884	3,498
Deposits received	7,838	7,764
Refunds	(7,918)	(7,378)
Contractor security deposits, end of year	3,804	3,884
Trust account, estates – Armed Services*		
Trust account, beginning of year	466	774
Funds received	1,750	925
Payments	(1,514)	(1,233)
Trust account, estates – Armed Services, end of year	702	466
Closing balance	4,506	4,350

* The trust account, estates – Armed Services was established to record the service estates of deceased members of the Canadian Forces pursuant to section 42 of the National Defence Act. Net assets of estates are distributed to legal heirs under the administration of the Judge Advocate General, in his capacity as Director of Estates.

7. Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties which are restricted in order to fund the expenditures related to amounts received for fees prior to services being performed. 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)	2018	2017
Foreign governments		
Beginning of year	6,270	6,341
Funds received	177,274	155,394
Revenue recognized	(179,115)	(155,465)
Foreign governments, end of year	4,429	6,270
Other specified purposes		
Beginning of year	5,930	6,476
Funds received	4,238	2,121
Revenue recognized	(4,755)	(2,667)
Other specified purposes, end of year	5,413	5,930
Closing balance	9,842	12,200



For the year ended March 31

8. Canadian Forces pension and insurance accounts

Established in 1901 under the Militia Pension Act, the present Canadian Forces pension plans (the “CF pension plans”) are administered in accordance with the provisions of the Canadian Forces Superannuation Act. The Canadian Forces pension plan (CFPP) covers all members of the Regular Force component of the CAF. Reserve Force members who have sufficient qualifying service and pensionable earnings are members of either the CFPP or the Reserve Force pension plan (RFPP), which came into force on March 1, 2007, depending on their employment status and earnings.

The department maintains accounts to record the transactions pertaining to the CF pension plans, which comprise the Canadian Forces Superannuation Account (the “Superannuation Account”), the Canadian Forces Pension Fund Account (CFPF), the Retirement Compensation Arrangement Account (RCA), and the Reserve Force Pension Fund Account (RFPP). These accounts record transactions such as contributions, benefit payments, interest credits, refundable taxes, actuarial funding adjustments resulting from triennial reviews, and transfers to the Public Sector Pension Investment Board (PSPIB).

The value of the liabilities reported in these financial statements does not include the actuarial value of the liabilities determined by the Chief Actuary of the Office of the Superintendent of Financial Institutions nor the details of the investments that are held by PSPIB. Additional information on the CF pension plans, including audited financial statements, is published in the Annual Report of the Canadian Forces Pension Plans, which is available through the department. For further information on PSPIB, please visit www.pspib.ca.

The CFPF and the RFPP do not earn interest. The Pension Fund Accounts are merely flow through accounts. At year-end, the balances in the Pension Fund Accounts represent net contributions transferable to PSPIB.

The department also maintains the Regular Force Death Benefit Account, which provides life insurance to contributing members and former members of the CAF. This account records contribution, premiums, interest, and benefit payments.

The RCA records transactions for pension benefits that are provided in excess of those permitted under the Income Tax Act. The RCA is registered with Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA to either remit a 50 percent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments. As at March 31, 2018, the total refundable tax transferred amounts to \$426 million (\$402 million in 2016-17).



For the year ended March 31

8. Canadian Forces pension and insurance accounts (continued)

The following table provides details of the Canadian Forces pension and insurance accounts liability as presented in the Statement of Financial Position:

(in thousands of dollars)	2018	2017
Canadian Forces Pension Fund Account		
Beginning of year	173,590	168,858
Funds received and other credits	1,613,514	1,387,813
Payments and other charges	(795,353)	(723,932)
Transfers to the Public Sector Pension Investment Board	(826,989)	(659,149)
Canadian Forces Pension Fund Account, end of year	164,762	173,590
Reserve Force Pension Fund Account		
Beginning of year	(63,015)	(51,192)
Funds received and other credits	79,425	57,155
Payments and other charges	(99,718)	(68,978)
Reserve Force Pension Fund Account, end of year	(83,308)	(63,015)
Retirement Compensation Arrangements Account		
Beginning of year	409,218	392,100
Funds received and other credits	54,817	45,368
Payments and other charges	(33,869)	(28,250)
Retirement Compensation Arrangements Account, end of year	430,166	409,218
Regular Force Death Benefit Account		
Beginning of year	189,500	185,452
Funds received and other credits	29,147	29,416
Payments and other charges	(33,444)	(25,368)
Regular Force Death Benefit Account, end of year	185,203	189,500
Closing balance	696,823	709,293

8a. Canadian Forces Superannuation Account

The Superannuation Account was created in order to record notional transactions for service prior to April 01, 2000. The Superannuation Account does not hold any investment assets. The amount of interest credited on the account is as though net contributions were invested quarterly in 20 year Government of Canada bonds issued at prescribed rates and held to maturity.

The assets and liabilities related to the Superannuation Account are not reflected in the department's Financial Statements as the Superannuation Account is the responsibility of the Government of Canada.



For the year ended March 31

8a. Canadian Forces Superannuation Account (continued)

Details of the Superannuation Account, including actuarial surpluses or deficiencies, can be found in the Annual Report of the Canadian Forces Pension Plans and in the Public Accounts of Canada.

The table below does not include the actuarial value of the liabilities determined by the Chief Actuary of the Office of the Superintendent of Financial Institutions, and is provided for information purposes only to disclose the transactions and account balance.

(in thousands of dollars)	2018	2017
Canadian Forces Superannuation Account		
Beginning of year	45,208,527	45,695,153
Funds received and other credits	3,663,587	1,984,082
Payments and other charges	(2,515,151)	(2,470,708)
Canadian Forces Superannuation Account, end of year	46,356,963	45,208,527

9. Lease obligations for tangible capital assets

The department has entered into agreements to lease certain tangible capital assets under capital leases with a cost of \$843 million and accumulated amortization of \$693 million as at March 31, 2018 (\$847 million and \$654 million respectively as at March 31, 2017). The obligations for the upcoming years include the following:

(in thousands of dollars)	Total future minimum lease payments	Imputed interest (4.10% to 7.74%)	Balance of obligations 2018	Balance of obligations 2017
Buildings	83,344	(19,170)	64,174	74,024
Aircraft	112,357	(6,682)	105,675	166,988
Total	195,701	(25,852)	169,849	241,012

Future minimum lease payments

(in thousands of dollars)	2018-19	2019-20	2020-21	2021-22	2022-23 and thereafter	Total
Buildings	11,780	11,185	10,649	7,636	42,094	83,344
Aircraft	70,106	38,652	3,599	0	0	112,357
Total	81,886	49,837	14,248	7,636	42,094	195,701

The department has also entered into agreements for buildings and aircraft under capital leases (refer to note 15).



For the year ended March 31

10. Employee future benefits

(a) Pension benefits

The department's Public Service 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 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 Canada's 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 2017-18 expense amounts to \$184.0 million (\$178.0 million in 2016-17). For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016-17) the contributions by employee and, for Group 2 members, approximately 1.00 times (1.08 times in 2016-17) the contributions by employee.

The department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the consolidated financial statements of the Government of Canada, as the Plan's sponsor.

The members of the Canadian Armed Forces Regular Force and eligible members of the Reserve Force participate in the Canadian Forces pension plan, which is sponsored by the Government of Canada and administered by the department. Pension benefits accrue up to a maximum 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 are indexed to inflation.

The members of the Canadian Armed Forces Reserve Force who are not eligible for participation in the Canadian Forces pension plan, may be eligible to participate in the Reserve Force pension plan, which is sponsored by the Government of Canada and administered by the department. Pension benefits accrue at a rate of 1.5 percent of pensionable earnings during the member's service, plus an additional 0.5 percent times the average of the best five consecutive years of earnings for those members who are not yet eligible for Canada/Québec Pension Plan benefits. The benefits are integrated with Canada/Québec Pension Plan benefits and are indexed to inflation.

Both the members and the department contribute to the cost of the CF pension plans for both current and prior service. The 2017-18 expense amounts to \$2,870 million (\$947.0 million in 2016-17), which represents approximately 4.6 times (1.9 times in 2016-17) the contributions by employees.

The department is responsible for providing program management and the day-to-day administration of the CF pension plans. The actuarial liability and actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the sponsor of the CF pension plans.

As a result of the actuarial funding report by the Office of the Chief Actuary, the President of Treasury Board has approved:

- Annual actuarial adjustments of \$145 million (\$170 million in 2016-17) to fund the deficit in the Canadian Forces Pension Fund Account, and \$5.3 million (\$4.2 million in 2016-17) for the Reserve Force Pension Fund Account until the deficit is funded as per the triennial funding valuation.

For more information on these adjustments, please consult the actuarial reports, available at the Office of the Chief Actuary's website (<http://www.osfi-bsif.gc.ca>)



For the year ended March 31

10. Employee future benefits (continued)

(b) Severance benefits

Severance benefits provided to the department's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2018, substantially all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

(in thousands of dollars)	2018	2017
Public Service Employees		
Accrued benefit obligation, beginning of year	83,301	108,701
Expenses for the year	9,464	(15,131)
Benefits paid during the year	(6,780)	(10,269)
Accrued benefit obligation, end of year	85,985	83,301
Canadian Armed Forces Members		
Accrued benefit obligation, beginning of year	688,984	792,100
Expenses for the year	(4,966)	(22,182)
Benefits paid during the year	(115,540)	(80,934)
Accrued benefit obligation, end of year	568,478	688,984
Total accrued benefit obligation, end of year	654,463	772,285



For the year ended March 31

11. Accounts receivable

The following table presents details of accounts receivable:

(in thousands of dollars)	2018	2017
Receivables - External parties	241,225	235,153
Receivables - Other government departments and agencies	787,090	268,293
	1,028,315	503,446
Less: allowance for doubtful accounts on receivables from external parties	48,826	53,852
Gross accounts receivable	979,489	449,594
Accounts receivable held on behalf of government	(5,642)	(5,232)
Net Receivables	973,847	444,362

12. Loans and advances

The following table presents details of loans and advances:

(in thousands of dollars)	2018	2017
Imprest accounts, standing advances and authorized loans to CAF members	42,939	48,119
Accountable advances (temporary advances)	3,193	2,207
Total loans and advances	46,132	50,326

13. Prepaid expenses

The following table presents details of prepaid expenses:

(in thousands of dollars)	2018	2017
Foreign Military Purchases ⁽¹⁾	261,453	278,581
Mercury Global Military Wideband Satellite Communications Project	209,015	224,497
Sea Sparrow Missiles	77,697	132,377
NATO Flying Training Canada (NFTC)	71,507	55,140
Building rentals	14,963	16,035
Other purchases	11,077	21,767
Total prepaid expenses	645,712	728,397

(1) Foreign Military Purchases comparative figures have been reclassified to conform to the current year's presentation.



For the year ended March 31

14. Inventory

The following table presents the details of inventory, measured at cost using the moving weighted average method except for inventory managed by contractors and not held in Defence Resource Management Information System (DRMIS), which is valued according to the cost method used by the contractors:

(in thousands of dollars)	2018	2017*
Ammunition, bombs and missiles	3,011,575	3,360,962
Uniforms and clothing	387,850	412,711
Contractor held inventory	338,133	346,720
Metal	307,823	291,017
Communication, electrical parts/accessories and informatics equipment	306,328	248,309
Engineering, test and technical equipment and machine tools	259,269	221,989
Ship spares	206,490	195,282
Land equipment spares	206,345	165,765
Aircraft spares	144,488	135,387
Sonobuoys, parts and accessories	148,338	130,176
Medical equipment	104,434	117,113
Packaging, preserving and storing material	48,075	36,787
Fuel, petroleum and oil	34,482	37,448
Sports, recreational, athletic equipment and supplies	28,703	1,994
Lighting, distribution, control equipment and parts	26,278	20,151
Miscellaneous	108,174	88,831
Total inventory	5,666,785	5,810,642

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations and Departmental Net Financial Position is \$608 million in 2017-18 (\$795 million in 2016-17).

The department is undergoing a review of its business processes related to the valuation of inventory. An analysis completed in 2017-18 resulted in an allowance of \$122 million (\$154 million in 2016-17), which is reflected in the table above.

*Certain comparative figures have been reclassified to conform to the current year's presentation.



For the year ended March 31

15. Tangible capital assets

The following table presents details of the cost of tangible capital assets:

(in thousands of dollars)	Balance beginning of year (Restated note 20)	Adjustments ⁽¹⁾	Acquisitions	Disposals and write-offs	Balance end of year
Land, buildings and works					
Land	86,259	0	0	0	86,259
Buildings	10,107,501	285,562	40,212	(11,182)	10,422,093
Works	2,642,494	60,710	8,068	(468)	2,710,804
	12,836,254	346,272	48,280	(11,650)	13,219,156
Machinery and equipment					
Machinery and equipment	7,407,286	(251,829)	142,550	(42,610)	7,255,397
Informatics hardware	7,228,723	(55,576)	164,941	(1,688,047)	5,650,041
Informatics software	954,170	12,745	15,361	(34)	982,242
Arms and weapons	5,815,711	526,984	50,478	(253,411)	6,139,762
Other equipment	147,357	(5,253)	8,437	(2,714)	147,827
	21,553,247	227,071	381,767	(1,986,816)	20,175,269
Ships, aircraft and vehicles					
Ships and boats	14,352,539	360,188	22,046	(1,037,264)	13,697,509
Aircraft	19,459,275	155,062	10,980	(84,121)	19,541,196
Non-military motor vehicles	1,040,046	10,059	91,891	(44,589)	1,097,407
Military vehicles	1,634,623	(4,583)	24,314	(34,108)	1,620,246
Other vehicles	470,872	(30,679)	32,397	(3,185)	469,405
	36,957,355	490,047	181,628	(1,203,267)	36,425,763
Leasehold improvements					
Leasehold improvements	91,106	44,544	0	(10,045)	125,605
	91,106	44,544	0	(10,045)	125,605
Leased tangible capital assets					
Buildings	155,400	(4,044)	0	0	151,356
Other equipment	48	0	0	0	48
Aircraft	691,286	0	0	0	691,286
	846,734	(4,044)	0	0	842,690
Assets under construction					
Buildings	813,163	(337,657)	485,573	0	961,079
Engineering works	177,102	(46,489)	162,425	0	293,038
Informatics software	199,087	(29,633)	55,201	(4,432)	220,223
Equipment	4,700,059	(1,267,036)	2,197,703	(18,775)	5,611,951
	5,889,411	(1,680,815)	2,900,902	(23,207)	7,086,291
Gross tangible capital assets	78,174,107	(576,925)	3,512,577	(3,234,985)	77,874,774

(1) Adjustments represent adjustments to asset pooled items (API), assets under construction put into use and reclassifications.

During 2017-18, the department transferred in the building (net book value of one dollar) from Innovation, Science and Economic Development Canada; machinery and equipment (net book value of one dollar) from National Research Council; and other equipment (total cost of \$14.9 million) from Canadian Space Agency. Also during 2017-18, the department transferred out machinery and equipment (net book value of one dollar) to National Research Council; machinery and equipment (total cost of \$40,000) to Canadian Nuclear Safety Commission; and vehicle (net book value of one dollar) to Royal Canadian Mounted Police. These transfers are included in the adjustments column.



For the year ended March 31

15. Tangible capital assets (continued)

The following table presents details of the amortization of tangible capital assets and its net book value:

(in thousands of dollars)	Balance beginning of year (Restated note 20)	Adjustments	Amortization	Disposals and write-offs	Balance end of year	Net Book Value	
						2018	2017 (Restated note 20)
Land, buildings and works							
Land	0	0	0	0	0	86,259	86,259
Buildings	4,445,339	3,216	264,730	(8,776)	4,704,509	5,717,584	5,662,162
Works	1,500,047	0	74,597	(303)	1,574,341	1,136,463	1,142,447
	5,945,386	3,216	339,327	(9,079)	6,278,850	6,940,306	6,890,868
Machinery and equipment							
Machinery and equipment	5,589,293	(326,502)	234,317	(39,638)	5,457,470	1,797,927	1,817,993
Informatics hardware	6,504,050	(113,017)	138,593	(1,685,089)	4,844,537	805,504	724,673
Informatics software	605,890	107	68,314	(22)	674,289	307,953	348,280
Arms and weapons	3,000,041	(114,564)	190,693	(182,768)	2,893,402	3,246,360	2,815,670
Other equipment	121,036	(1,449)	8,035	(1,874)	125,748	22,079	26,321
	15,820,310	(555,425)	639,952	(1,909,391)	13,995,446	6,179,823	5,732,937
Ships, aircraft and vehicles							
Ships and boats	9,430,041	88,266	662,446	(1,033,939)	9,146,814	4,550,695	4,922,498
Aircraft	11,417,126	(118,400)	677,304	(84,121)	11,891,909	7,649,287	8,042,149
Non-military motor vehicles	659,546	(16,595)	77,137	(42,026)	678,062	419,345	380,500
Military vehicles	1,331,349	(11,489)	65,299	(33,115)	1,352,044	268,202	303,274
Other vehicles	318,908	(27,684)	19,517	(2,819)	307,922	161,483	151,964
	23,156,970	(85,902)	1,501,703	(1,196,020)	23,376,751	13,049,012	13,800,385
Leasehold improvements							
Leasehold improvements	44,788	0	6,331	(6,461)	44,658	80,947	46,318
	44,788	0	6,331	(6,461)	44,658	80,947	46,318
Leased tangible capital assets							
Buildings	87,439	(590)	6,702	0	93,551	57,805	67,961
Other equipment	48	0	0	0	48	0	0
Aircraft	566,240	0	33,535	0	599,775	91,511	125,046
	653,727	(590)	40,237	0	693,374	149,316	193,007
Assets under construction							
Buildings						961,079	813,163
Engineering works						293,038	177,102
Informatics software						220,223	199,087
Equipment						5,611,951	4,700,059
						7,086,291	5,889,411
Total	45,621,181	(638,701)	2,527,550	(3,120,951)	44,389,079	33,485,695	32,552,926



For the year ended March 31

15. Tangible capital assets (continued)

The department has \$19.7 million (\$24.5 million in 2016-17) in net book value of capital assets with an original acquisition cost of \$1,998 million (\$3,768 million in 2016-17) that have been declared surplus. These assets have been written down to their net realizable value in the Consolidated Statement of Financial Position.

16. Contingent liabilities

Contingent liabilities arise in the normal course of the operations of the department and their ultimate disposition is unknown. The department is involved in contingent liabilities on claims and litigations.

Claims and litigations

Claims have been made against the department in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The department 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 \$371.3 million (\$50.6 million in 2016-17) at March 31, 2018.

17. Contractual obligations and contractual rights

(a) Contractual obligations

The nature of the department's activities may result in some large multi-year contracts and obligations whereby the department will be obligated to make future payments when the services/goods are received. Contractual obligations over \$10 million that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2018-19	2019-20	2020-21	2021-22	2022-23 and thereafter	Total
Fixed Assets	1,909,941	1,779,251	900,288	476,187	1,056,968	6,122,635
Purchases	3,180,146	1,686,226	1,477,016	1,207,546	6,474,350	14,025,284
Total	5,090,087	3,465,477	2,377,304	1,683,733	7,531,318	20,147,919



For the year ended March 31

17. Contractual obligations and contractual rights (continued)

(b) Contractual rights

The activities of the department sometimes involve the negotiation of contracts or agreements with outside parties that result in the department having rights to both assets and revenues in the future. They principally involve leases of property and sales of goods and services. Major contractual rights that will generate revenue in the future years and that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 and thereafter	Total ⁽¹⁾
Support services	0	0	0	0	0	31,053	31,053
Total	0	0	0	0	0	31,053	31,053

- (1) The disclosed contractual rights pertain to an In Service Support Contract for helicopters that gives rise to royalties as well as consideration. In accordance with the contract, consideration will be provided in the form of a credit of \$31M that cannot be activated prior to fiscal year 2023-24 and must be used by end of fiscal year 2028-29. Also, the department will earn royalties for future helicopter sales. As there are no anticipated sales as at March 31, 2018, this amount is currently reported as nil.

18. Related party transactions

The department is related as a result of common ownership to all government departments, agencies, and Crown corporations. Related parties also include individuals who are members of key management personnel⁽¹⁾ or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

The department enters into transactions with these entities in the normal course of business and on normal trade terms. The department did not identify any material transactions that occurred at a value different from that which would have been arrived at if the parties were unrelated.

- (1) For the departmental financial statements, key management personnel (KMP) are defined as the Associate Deputy Minister, Assistant Deputy Ministers (ADM), other executives at the EX-4 and EX-5 level, including military equivalents, and members of governing management boards.



For the year ended March 31

18. Related party transactions (continued)

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

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

(in thousands of dollars)	2018	2017
Employer's contributions to the health and dental plans paid by Treasury Board of Canada Secretariat	789,778	696,250
Accommodation provided by Public Services and Procurement Canada	59,736	66,033
Worker's compensation coverage provided by Employment and Social Development Canada	6,533	7,260
Legal services provided by Department of Justice Canada	2,936	4,013
Total	858,983	773,556

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 and audit services provided by the Office of the Auditor General are not included in the department's Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with other government departments

(in thousands of dollars)	2018	2017
Expenses – other government departments and agencies	1,207,277	1,226,786
Revenues – other government departments and agencies	16,316	18,392

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

19. Segmented information

The presentation by segment is based on the department's program alignment architecture as stated in note 1. The presentation by segment is based on the accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program, by major object of expense and by major type of revenue. The segment results for the period are as follows:



For the year ended March 31

19. Segmented information (continued)

(in thousands of dollars)	DCSO ⁽¹⁾	DSCG ⁽²⁾	DRFEP ⁽³⁾	DCEP ⁽⁴⁾
Operating expenses				
Salary and employee benefits	1,148,063	372,323	3,991,956	6,353,737
Amortization	670	19	354	2,522,410
Professional and special services	178,991	27,310	66,466	1,900,664
Repair and maintenance	19,223	1,008	8,624	1,249,248
Expenses related to tangible assets	14,040	2,308	35,873	713,068
Materials and supplies	76,830	31,264	304,828	420,186
Transportation and communication	69,254	27,875	141,727	475,982
Other services	26,675	9,223	51,503	335,624
Accommodation	15,503	9,575	21,550	133,357
Equipment and other rentals	21,761	15,674	77,954	58,046
Utilities	2,111	459	473	165,120
Loss on disposals and write-offs and write-downs of assets	90,260	0	0	0
Bad debts	950	373	1,449	23,833
Interest on capital lease payments	70,251	0	0	(58,274)
Advertising, printing and related services	3,395	510	1,267	10,777
Other expenses	31,563	18,443	198,106	378,079
Total operating expenses	1,769,540	516,364	4,902,130	14,681,857
Transfer payments				
Transfers to other countries and international organizations	145,712	25	1,400	0
Transfers to other levels of government	0	8	0	588
Transfers to non-profit organizations	0	4,956	0	0
Transfers to individuals	0	0	0	1,824
Total transfer payments	145,712	4,989	1,400	2,412
Total expenses	1,915,252	521,353	4,903,530	14,684,269
Revenues				
Sale of goods and services	113,758	1,820	8,103	245,865
Gains on disposals of assets	99	22	6,307	18,653
Interest and gains on foreign exchange	602	12	655	8,485
Revenues earned on behalf of government	0	0	(809)	0
Other	1	370	34	2,102
Total revenues	114,460	2,224	14,290	275,105
Net cost from continuing operations	1,800,792	519,129	4,889,240	14,409,164



For the year ended March 31

19. Segmented information (continued)

(in thousands of dollars)	DCDR ⁽⁵⁾	IS ⁽⁶⁾	2018	2017 (Restated note 20)
Operating expenses				
Salary and employee benefits	315,251	409,626	12,590,956	9,421,262
Amortization	4,096	1	2,527,550	2,624,309
Professional and special services	82,043	16,867	2,272,341	1,997,954
Repair and maintenance	5,379	1,863	1,285,345	1,318,168
Expenses related to tangible assets	8,171	(1,412)	772,048	1,054,818
Materials and supplies	7,351	(11,717)	828,742	901,457
Transportation and communication	17,306	2,406	734,550	782,497
Other services	55,577	59,127	537,729	494,876
Accommodation	1,853	2,060	183,898	190,151
Equipment and other rentals	989	639	175,063	176,155
Utilities	88	(1,116)	167,135	172,052
Loss on disposals and write-offs and write-downs of assets	0	0	90,260	167,918
Bad debts	2,074	3,128	31,807	40,238
Interest on capital lease payments	0	0	11,977	16,148
Advertising, printing and related services	1,284	1,121	18,354	14,963
Other expenses	42,854	147,111	816,156	177,118
Total operating expenses	544,316	629,704	23,043,911	19,550,084
Transfer payments				
Transfers to other countries and international organizations	0	0	147,137	140,331
Transfers to other levels of government	0	0	596	5,148
Transfers to non-profit organizations	131	0	5,087	4,911
Transfers to individuals	0	0	1,824	2,161
Total transfer payments	131	0	154,644	152,551
Total expenses	544,447	629,704	23,198,555	19,702,635
Revenues				
Sale of goods and services	1,868	13,007	384,421	409,778
Gains on disposals of assets	246	1,740	27,067	18,291
Interest and gains on foreign exchange	239	8,919	18,912	15,170
Revenues earned on behalf of government	(1,815)	(7,763)	(10,387)	(10,192)
Other	0	11,191	13,698	14,779
Total revenues	538	27,094	433,711	447,826
Net cost from continuing operations	543,909	602,610	22,764,844	19,254,809

(1) DCSO Defence Combat and Support Operations

(2) DSCG Defence Services and Contributions to Government

(3) DRFEP Defence Ready Force Element Production

(4) DCEP Defence Capability Element Production

(5) DCDR Defence Capability Development and Research

(6) IS Internal Services



For the year ended March 31

20. Accounting changes

Restatement of previous year's results

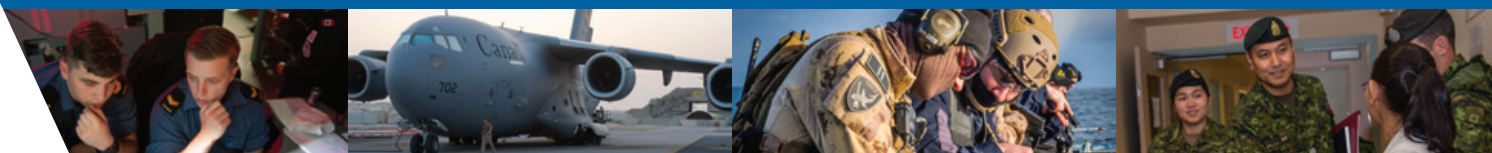
The department is undergoing a multi-year review of its business processes related to the recording and valuation of tangible capital assets. In 2017-18, this review identified capital assets that should have been reported in previous fiscal years and adjustments to remove non-capital expenditures.

The effect of the resulting retroactive adjustments are presented below:

(in thousands of dollars)	2017 As previously stated	Effect of changes	2017 Restated
Consolidated Statement of Financial Position			
Tangible capital assets (note 15)	32,640,145	(87,219)	32,552,926
Total non-financial assets	39,179,184	(87,219)	39,091,965
Departmental net financial position	37,224,044	(87,219)	37,136,825
Consolidated Statement of Operations and Departmental Net Financial Position			
Total expenses	19,623,843	78,792	19,702,635
Net cost from continuing operations	19,176,017	78,792	19,254,809
Net cost of operations after government funding and transfers	(222,361)	78,792	(143,569)
Departmental net financial position – beginning of year	37,001,683	(8,427)	36,993,256
Departmental net financial position – end of year	37,224,044	(87,219)	37,136,825
Consolidated Statement of Change in Departmental Net Debt			
Net cost of operations after government funding and transfers	(222,361)	78,792	(143,569)
Amortization of tangible capital assets	(2,545,517)	(78,792)	(2,624,309)
Total change due to tangible capital assets	80,991	(78,792)	2,199
Consolidated Statement of Cash Flows			
Net cost of operations before government funding and transfers	19,176,017	78,792	19,254,809
Amortization of tangible capital assets	(2,545,517)	(78,792)	(2,624,309)

21. Comparative information

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



1. Introduction

This document provides summary information on the measures taken by the department to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management, assessment of results and related action plans. Fiscal year 2017-18 marks the first fiscal year of the department's ongoing monitoring status as it relates to a system of ICFR.

Detailed information on the department's authority, mandate and program activities can be found in the 2017-18 Departmental Results Report and the 2018-19 Departmental Plan.

2. Departmental system of ICFR

2.1 Internal control management

The department has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Minister (DM), is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- A focused internal control management group under the Chief Financial Officer (CFO) to monitor the effectiveness of ICFR across the department, including reporting on deficiencies and providing assistance to business process owners in the implementation of ICFR;
- An internal financial attestation process in support of certification by the DM and CFO, whereby senior departmental executives who report to the DM attest that they have maintained an effective system of

internal control over financial reporting in their area of responsibility;

- A Defence Ethics Program which is a comprehensive values-based program put in place to meet the needs of the department and the Canadian Armed Forces (CAF), at both the individual and the organizational levels;
- A comprehensive Fraud Risk Management strategy that is designed to protect the department's resources from fraud, waste and abuse through a prevention and detection framework;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control;
- Regular monitoring of internal control management by Internal Audit as well as the provision of related assessments of results and action plans to the Deputy Minister, the Departmental Audit Committee and departmental senior management; and
- A Departmental Audit Committee (DAC) that has oversight on the adequacy and functioning of the department's risk, management and control and governance framework and processes.

2.2 Service arrangements relevant to financial statements

The department relies on other organizations for the processing of certain transactions that are recorded in its Departmental Financial Statements as follows:

(i) Common Arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers the payments of civilian salaries, pension, and the procurement of goods and services as per the delegation of authority of other government organizations. PSPC also administers the Receiver General Central Systems used to make payments on behalf of the department;
- The Treasury Board of Canada Secretariat provides services related to public sector pension and insurance for the Defence Team and centrally administers payment of the employer's share of contributions toward statutory employee benefit plans (i.e., the Public Service Pension Plan, Employment Insurance Plan, Canada Pension Plan, Québec Pension Plan and



Public Service Supplementary Death Benefit Plan) on behalf of the department;

- Shared Services Canada provides information technology infrastructure services and support to the department, such as but not limited to, email, data centres and network services;
- The Department of Justice provides legal services to the department, as well as information for establishing the contingent liability note to the financial statements and for inclusion in the Public Accounts of Canada; and
- PSPC provides Pension services to Canadian Armed Forces members.

(ii) Specific Arrangements:

- Defence Construction Canada provides contracting, construction contract management and payment processing services as well as infrastructure support to the department in accordance with the Memorandum of Understanding between the two organizations and as per the department's Delegation of Authorities instrument; and
- The Office of the Superintendent of Financial Institutions provides the department with the accrued severance liability amount for the CAF.

3. Departmental assessment results during fiscal year 2017-18

Fiscal year 2017-18 marked the first full year of ongoing monitoring for the department.

The department is one of the largest and most complex organizations in the Government of Canada with annual expenditures of over \$22 billion, revenues of \$400 million and net assets in excess of \$37 billion managed in a highly decentralized operating and financial environment.

There are three separate payroll systems, two of which are currently undergoing major transformations, which annually expend more than \$9 billion in salaries and benefits to more than 100,000 Regular and Reserve Force military members as well as civilian employees.

Furthermore, there are two major Enterprise Resource Planning systems, Defence Resource Management Information System and Human Resource Management System, which support the business and extend to every operational area of the department.

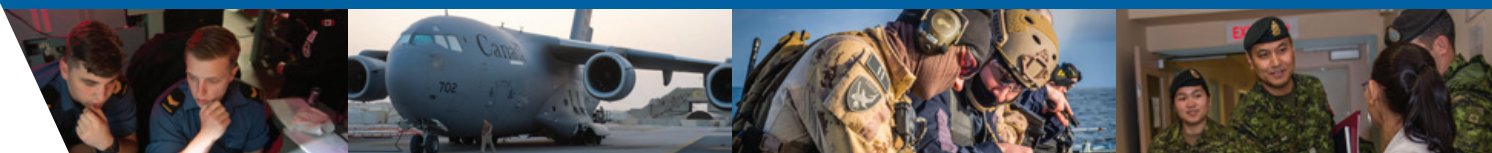
The department's five-year rotational ICFR ongoing monitoring plan is developed on a risk informed basis using methodology outlined in the department's Internal Control over Financial Management (ICFM) Ongoing Monitoring Framework approved by the CFO. ICFM is a broad set of measures and activities that provide reasonable assurance of the effectiveness and efficiency of the financial management activities of a department. ICFR is a subset of ICFM focusing uniquely on providing reasonable assurance of the accuracy and completeness of the department's financial statements. Departments are currently only required to report on the ICFR component of ICFM in this Annex.

Annually a risk assessment is completed and the rotational plan is updated as required. Due to the complexity of operations, the department has opted to create an ongoing monitoring rotational plan at the sub-process level. That is to say, that each business process has further been divided into sub-processes, and the rotation plan has been developed on that basis. As a result, although a business process is identified for assessment in a given fiscal year, it is possible that only a subset of sub-processes are assessed within a fiscal year. Each element in the table below will undergo a complete assessment at least once every five years.

ICFR ongoing monitoring assessments involve the review and testing of previously identified key controls within business processes to confirm that the design of these controls continue to address key financial risks and that these controls continue to operate effectively.

The following table summarizes the status of the ongoing monitoring activities according to the previous fiscal year's rotational plan.

ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING – INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) ASSESSMENT OF ICFR AND THE ACTION PLAN FOR THE FISCAL YEAR ENDING MARCH 31, 2018



Progress during fiscal year 2017-18	
Previous year's rotational ongoing monitoring plan for current year	Status
Civilian Pay	Completed as planned; remediation action plans under development
Inventory	Completed as planned; remediation actions developed
Capital Assets	Completed as planned; remediation actions developed
Procure to Payment	Completed as planned; remediation actions substantially developed
Financial Reporting and Close	Completed as planned; remediation complete
Remediation Liability	Testing completed as planned; reports including conclusions and remediation action plans to be completed in fiscal 2018-19
Real Property	Testing completed as planned; reports including conclusions and remediation action plans to be completed in fiscal 2018-19
Military Regular & Reserve Force Payroll	Deferred to fiscal year 2018-19

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

3.1 New or significantly amended key controls

The implementation of the government pay system, Phoenix, required some changes to internal pay processes and controls. Implementation of these controls and associated quality assurance programs continue. A full assessment of the civilian payroll process will be conducted in fiscal year 2020-21 as per the department's rotational ongoing monitoring plan.

3.2 Ongoing monitoring program

As part of its rotational ongoing monitoring plan, the department completed its assessments of civilian pay, inventory, capital assets, procure to pay, and financial reporting and close. These assessments did not highlight any new control gaps not previously identified. As a result of the monitoring, two common themes emerged: (a) automated controls were found to be more effective than manual controls, and, (b) lack of consistent documentation related to the performance of certain controls. Additionally, there were findings related to some account verification, custody of goods, and work-in-progress controls. Management action plans are being developed to address the deficiencies identified.

3.3 Status of transformational modernization projects

As a result of the department's completion of initial design and operating effectiveness assessments, several modernization projects were conceived relating mainly to the automation of control mechanisms. The department has moved forward several key projects including developing a Post Payment Verification for Pay, one of the first departments to do so. In addition, the department has developed solutions which result in improved efficiencies.

Modernization and transformation remain a high priority for the department. The department's priorities for 2018-19 will continue to improve business processes efficiencies and to strengthen controls through automation.



4. Departmental action plan for the next fiscal year and subsequent years

The department's rotational ongoing monitoring plan over the next three fiscal years, based on an annual validation of the high-risk processes and controls and related adjustments to the ongoing monitoring plan as required, is shown in the following table.

Rotational Ongoing Monitoring Plan			
	2018-19	2019-20	2020-21
Entity Level Controls	No	Yes	No
IT General Controls	Yes	Yes	Yes
Financial Reporting and Close	No	Yes	No
Procure to Payment	No	Yes	No
Inventory	Yes	Yes	Yes
Capital Assets	Yes	Yes	Yes
Real Property	Yes	Yes	Yes
Civilian Pay	No	No	Yes
Military Regular Force Pay	Yes	No	No
Military Reserve Force Pay	Yes	No	No
Remediation Liability	No	Yes	No



Accounting changes (note 20).....	34
Accounts payable and accrued liabilities (note 4).....	15
Accounts receivable (note 11).....	25
Authority and objectives (note 1)	6
Canadian Forces pension and insurance accounts (note 8).....	20
Comparative information (note 21)	34
Contingent liabilities (note 16).....	29
Contractual obligations and contractual rights (note 17)	29
Deferred revenue (note 7)	19
Deposits and trust accounts (note 6).....	19
Employee future benefits (note 10)	23
Environmental liabilities (note 5)	16
Inventory (note 14)	26
Lease obligations for tangible capital assets (note 9)	22
Loans and advances (note 12)	25
Parliamentary authorities (note 3)	14
Prepaid expenses (note 13)	25
Related party transactions (note 18)	30
Segmented information (note 19).....	31
Summary of significant accounting policies (note 2)	9
Tangible capital assets (note 15).....	27