



Environment and
Climate Change Canada

Environnement et
Changement climatique Canada



**DEPARTMENTAL
FINANCIAL STATEMENTS
(unaudited)
2017-2018**

Statement of Management Responsibility Including Internal Control over Financial Reporting 2017-2018

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 Environment and Climate Change Canada. These financial statements have been prepared by management using the Government's accounting directives and practices, which are based on Canadian public sector accounting standards.

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

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

Management seeks to ensure the objectivity and integrity of data in financial statements through rigorous selection, training, and development of qualified staff; through organizational structure that provides appropriate responsibilities and accountabilities; through communication aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout Environment and Climate Change Canada and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

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

An annual 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*. The results and action plans are summarized in the annex.

The effectiveness and adequacy of Environment and Climate Change Canada's system of internal control is also reviewed through an independent assurance by internal audit staff, who conduct periodic audits of different areas of Environment and Climate Change Canada's operations, and by the Departmental Audit Committee, which reviews and provides guidance to the Deputy Minister for maintaining adequate control systems and financial reporting, and which recommends the financial statements to the Deputy Minister of Environment and Climate Change Canada.

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

(Original signed by)

Stephen Lucas
Deputy Minister

Gatineau, Canada
Date:

(Original signed by)

Carol Najm
Chief Financial Officer

Gatineau, Canada
Date:

Statement of Financial Position (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

As at March 31

(in thousands of dollars)

	2018	2017
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$226,552	\$141,235
Vacation pay and compensatory leave	39,789	21,903
Deferred revenue (Note 6)	16,099	6,831
Lease obligation for tangible capital assets (Note 7)	8,986	9,738
Employee future benefits (Note 8)	27,285	26,260
Environmental liabilities (Note 5)	193,510	195,603
Other liabilities	1,589	563
Total liabilities	513,810	402,133
Financial assets		
Due from Consolidated Revenue Fund	215,524	134,894
Accounts receivable and advances (Note 9)	35,357	26,934
Total gross financial assets	250,881	161,828
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(4,208)	(3,333)
Total net financial assets	246,673	158,495
DEPARTMENTAL NET DEBT	267,137	243,638
Non-financial assets		
Prepaid expenses	1,077	990
Inventory (Note 10)	25,897	28,863
Tangible capital assets (Note 11)	391,832	382,930
Total non-financial assets	418,806	412,783
DEPARTMENTAL NET FINANCIAL POSITION	\$151,669	\$169,145

Contractual obligations and contractual rights (Note 12)

Contingent liabilities and contingent asset (Note 13)

The accompanying notes form an integral part of these financial statements

(Original signed by)

Stephen Lucas

Deputy Minister

Gatineau, Canada

Date:

(Original signed by)

Carol Najm

Chief Financial Officer

Gatineau, Canada

Date:

Statement of Operations and Departmental Net Financial Position (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

For the year ended March 31

(in thousands of dollars)

	Planned results (Note 2a)		
	2018	2018	2017
Expenses			
Conservation of Canada's Natural Environment	\$371,339	\$421,073	\$398,053
Weather Information	242,009	266,516	238,284
Threats from Pollution Minimized	304,732	391,490	357,948
Internal Services	222,450	273,460	195,221
Total expenses	1,140,530	1,352,539	1,189,506
Revenues			
Sales of goods and services	75,641	82,021	77,968
Other revenues	20,807	20,694	18,413
Revenues earned on behalf of Government	(16,917)	(10,315)	(10,977)
Total revenues	79,531	92,400	85,404
Net cost of operations before government funding and transfers	1,060,999	1,260,139	1,104,102
Government funding and transfers			
Net cash provided by Government		1,054,399	994,830
Change in due from Consolidated Revenue Fund		80,630	3,412
Services provided without charge by other government departments (Note 14)		107,702	101,145
Transfer of the transition payments for implementing salary payments in arrears		(8)	-
Transfer of tangible capital assets from (to) other government departments (Note 15)		2	(198)
Transfer of salary overpayments and emergency salary advances from (to) other government departments (Note 15)		(62)	-
Net cost of operations after government funding and transfers		17,476	4,913
Departmental net financial position - Beginning of year		169,145	174,058
Departmental net financial position - End of year		\$151,669	\$169,145

Segmented information (Note 16)

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

Statement of Change in Departmental Net Debt (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

For the year ended March 31

(in thousands of dollars)

	2018	2017
Net cost of operations after government funding and transfers	\$17,476	\$4,913
Change due to tangible capital assets		
Acquisition of tangible capital assets (Note 11)	62,495	59,930
Amortization of tangible capital assets (Note 11)	(49,640)	(44,891)
Proceeds from disposal of tangible capital assets	(653)	(1,069)
Net loss on disposals, write-off and adjustments to tangible capital assets	(3,302)	(6,523)
Transfer to/from other government departments (Note 15)	2	(198)
Total change due to tangible capital assets	8,902	7,249
Change due to inventories (Note 10)	(2,966)	13,513
Change due to prepaid expenses	87	(87)
Net increase in departmental net debt	23,499	25,588
Departmental net debt - Beginning of year	243,638	218,050
Departmental net debt - End of year	\$267,137	\$243,638

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

Statement of Cash Flows (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

For the year ended March 31

(in thousands of dollars)

	2018	2017
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$1,260,139	\$1,104,102
Non-cash items:		
Services provided without charge by other government departments (Note 14)	(107,702)	(101,145)
Amortization of tangible capital assets (Note 11)	(49,640)	(44,891)
Net loss on disposals, write-off and adjustments to tangible capital assets	(3,302)	(6,523)
Transition payments for implementing salary payments in arrears	8	-
Variations in Statement of Financial Position:		
Decrease (increase) in accounts payable and accrued liabilities (Note 4)	(85,317)	(934)
Decrease (increase) in vacation pay and compensatory leave	(17,886)	8,001
Decrease (increase) in deferred revenue (Note 6)	(9,268)	285
Decrease (increase) in employee future benefits (Note 8)	(1,025)	10,166
Decrease (increase) in environmental liabilities (Note 5)	2,093	(54,185)
Decrease (increase) in other liabilities	(1,026)	329
Increase (decrease) in accounts receivable and advances (Note 9)	7,548	6,626
Increase (decrease) in prepaid expenses	87	(87)
Increase (decrease) in inventory (Note 10)	(2,966)	13,513
Transfer of salary overpayments and emergency salary advances (from) to other government departments (Note 15)	62	-
Cash used in operating activities	991,805	935,257
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets (Note 11)	62,495	59,930
Proceeds from disposal of tangible capital assets	(653)	(1,069)
Cash used in capital investing activities	61,842	58,861
FINANCING ACTIVITIES		
Lease payments for tangible capital assets	752	712
Cash used in financing activities	752	712
NET CASH PROVIDED BY GOVERNMENT OF CANADA	\$1,054,399	\$994,830

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

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives

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

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

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

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

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

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

- ✓ *Antarctic Environmental Protection Act*
- ✓ *Canada Emission Reduction Incentives Agency Act*
- ✓ *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act*
- ✓ *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*
- ✓ *Canada Oil and Gas Operations Act*
- ✓ *Canada Water Act*
- ✓ *Canada Wildlife Act*
- ✓ *Canadian Environment Week Act*
- ✓ *Canadian Environmental Assessment Act, 2012*
- ✓ *Canadian Environmental Protection Act, 1999*
- ✓ *Department of the Environment Act*
- ✓ *Environmental Enforcement Act*
- ✓ *Environmental Violations Administrative Monetary Penalties Act*
- ✓ *Federal Sustainable Development Act*
- ✓ *Fisheries Act (Sections 36-42)*
- ✓ *Greenhouse Gas Pollution Pricing Act*
- ✓ *International River Improvements Act*
- ✓ *Lac Seul Conservation Act, 1928*

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives (continued)

- ✓ *Lake of the Woods Control Board Act, 1921*
- ✓ *Manganese-Based Fuel Additives Act*
- ✓ *Migratory Birds Convention Act, 1994*
- ✓ *National Strategy for Safe and Environmentally Sound Disposal of Lamps Containing Mercury Act*
- ✓ *National Wildlife Week Act*
- ✓ *Perfluorooctane Sulfonate Virtual Elimination Act*
- ✓ *Species at Risk Act*
- ✓ *Weather Modification Information Act*
- ✓ *Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act*

2. Summary of significant accounting policies

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

Significant accounting policies are as follows:

(a) Parliamentary authorities

Environment and Climate Change Canada is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to Environment and Climate Change Canada do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Departmental Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-Oriented Statement of Operations included in the 2017-18 Departmental Plan. Planned results are not presented in the "Government funding and transfers" section of the Statement of Operations and Departmental Net Financial Position and in the Statement of Change in Departmental Net Debt because these amounts were not included in the 2017-18 Departmental Plan.

(b) Net Cash Provided by Government

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

(c) Amount Due from or to the Consolidated Revenue Fund (CRF)

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

(d) Revenues

- ✓ Revenues from regulatory fees are recognized based on the services provided in the year.
- ✓ Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue.
- ✓ Revenues are then recognized in the period in which the related expenses are incurred.
- ✓ Deferred revenue consists of amounts received in advance of the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned.
- ✓ Other revenues are recognized in the period the event giving rise to the revenues occurred.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

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

(e) Expenses

- ✓ Transfer payments are recorded as an expense in the year the transfer is authorized and eligibility criteria have been met by the recipient.
- ✓ Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- ✓ Services provided without charge by other government departments for accommodation, employer contributions to the health and dental insurance plans, legal services and workers' compensation are recorded as operating expenses at their carrying value.

(f) Employee future benefits

- ✓ Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. Environment and Climate Change Canada's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Environment and Climate Change Canada's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- ✓ Severance benefits: The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. 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.

(g) Accounts receivable

Accounts receivable are initially recorded at cost and when necessary, an allowance for valuation is recorded to reduce the carrying value of accounts receivable to amounts that approximate their net recoverable value.

(h) Non-financial 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 11. All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. Tangible capital assets do not include works of art, museum collection and Crown land to which no acquisition cost is attributable; and intangible assets.

Inventories are valued at cost and are comprised of spare parts and supplies held for future program delivery and are not primarily intended for resale. Inventories that no longer have service potential are valued at the lower of cost or net realizable value.

(i) Contingent liabilities

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

(j) 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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(k) 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.

The recorded liabilities are adjusted each year, for present value adjustments, inflation, new obligations, changes in management estimates and actual costs incurred.

(l) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the Government's best estimate of the related amount at the end of the reporting period. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee future benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

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. 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.

(m) 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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

3. Parliamentary authorities

Environment and Climate Change Canada receives most of its funding through annual parliamentary authorities. Items recognized in the Statement of Operations and Departmental Net Financial Position and the Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, Environment and Climate Change Canada has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

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

(in thousands of dollars)	<u>2018</u>	<u>2017</u>
Net cost of operations before government funding and transfers	\$1,260,139	\$1,104,102
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (Note 11)	(49,640)	(44,891)
Net loss on disposals, write-off and adjustments to tangible capital assets	(3,302)	(6,523)
Common services provided without charge by other government departments (Note 14)	(107,702)	(101,145)
Refunds/adjustments to previous years' expenses	3,531	2,932
Decrease (increase) in liabilities related to the workforce adjustment	212	518
Decrease (increase) in accrued liabilities not charged to authorities	8,018	4,724
Decrease (increase) in vacation pay and compensatory leave	(17,886)	8,001
Decrease (increase) in employee future benefits (Note 8)	(1,025)	10,166
Decrease (increase) in environmental liabilities (Note 5)	2,093	(54,185)
Increase (decrease) in inventory (Note 10)	(2,966)	13,513
Other	567	2,538
Total items affecting net cost of operations but not affecting authorities	<u>(168,100)</u>	<u>(164,352)</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (Note 11)	62,495	59,930
Transition payments for implementing salary payments in arrear	8	-
Prepaid expenses	87	(87)
Salary Overpayments	8,926	5,560
Other Loans and advances to employees	500	3
Capital lease payments	752	712
Total items not affecting net cost of operations but affecting authorities	<u>72,768</u>	<u>66,118</u>
Current year authorities used	<u>\$1,164,807</u>	<u>\$1,005,868</u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

3. Parliamentary authorities (continued)

(b) Authorities provided and used:

(in thousands of dollars)

	2018	2017
Authorities provided		
Vote 1 - Operating expenditures	\$837,506	\$750,844
Vote 5 - Capital expenditures	84,575	73,872
Vote 10 - Grants & Contributions	309,277	149,433
Statutory amounts	85,585	84,490
	1,316,943	1,058,639
Less:		
Authorities available for future years	(796)	(427)
Lapsed authorities	(151,340)	(52,344)
	(152,136)	(52,771)
Current year authorities used	\$1,164,807	\$1,005,868

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)

	2018	2017
Accounts payable - Other government departments and agencies	\$17,203	\$10,816
Accounts payable - External parties	169,052	99,946
Total accounts payable	186,255	110,762
Accrued liabilities	40,297	30,473
Total accounts payable and accrued liabilities	\$226,552	\$141,235

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments starting in 2012-2013 and extending over the three subsequent fiscal years. To this effect, the Department has recorded an obligation for termination benefits as part of accrued liabilities to reflect the estimated workforce adjustment costs. The remaining balance of these measures as of March 31, 2018 is \$0 (\$211,500 as of March 31, 2017).

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Environmental liabilities

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.

Environment and Climate Change Canada has identified approximately 80 sites (111 sites in 2016-2017) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified approximately 17 sites (17 sites in 2016-2017) where action is required and for which a gross liability of 180,882 thousand (183,006 thousand in 2016-2017) 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 21 unassessed sites (13 sites in 2016-2017) where a liability estimate of \$230 thousand (\$199 thousand in 2016-2017) has been recorded using this model.

Moreover, there is 1 site that has not been assessed by environmental experts (1 site in 2016-2017) for which the department has estimated and recorded a liability of \$12,398 thousand (\$12,398 thousand in 2016-2017).

These three estimates combined, totalling \$193,510 thousand (\$195,603 thousand in 2016-2017), represents management's best estimate of the costs required to remediate sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date.

For the remaining 41 sites (80 sites in 2016-2017), 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, Environment and Climate Change Canada does not expect to give up any future economic benefits (there is likely 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 2016-2017). 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 2 year term to 2.24% (2.39% in 2017) for a 30 or greater year term.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Environmental liability (continued)

(in thousands of dollars)	2018					2017				
	Number of Sites	Number of sites with a liability	Estimated Liability	Estimated Total Undiscounted Expenditures	Estimated Recoveries	Number of Sites	Number of sites with a liability	Estimated Liability	Estimated Total Undiscounted Expenditures	Estimated Recoveries
Military and Former Military Sites ⁽¹⁾	1	-	-	-	-	-	-	-	-	-
Fuel Related Practices ⁽²⁾	23	16	31,577	24,269	-	31	10	32,297	35,355	-
Marine Facilities / Aquatic Sites ⁽³⁾	13	7	159,519	186,218	-	28	13	162,674	185,119	-
Parks and Protected Areas ⁽⁴⁾	29	13	472	433	-	37	7	607	633	-
Office / commercial / industrial operations ⁽⁵⁾	14	3	1,942	1,891	-	15	1	25	26	-
Totals	80	39	\$193,510	\$212,811	-	111	31	\$195,603	\$221,133	-

⁽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 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.

⁽⁴⁾ Contamination associated with the operations and maintenance of parks and protected areas where activities such as fuel storage/handling, waste sites and use of metal-based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, PCBs and other organic contaminants. Sites often have multiple sources of contamination.

⁽⁵⁾ Contamination associated with the operations of the office/commercial/industrial facilities where activities such as fuel storage/handling, waste sites and use of metal-based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, etc. Sites often have multiple sources of contamination.

The Department's ongoing efforts to assess contaminated sites, may result in additional environmental liabilities.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

6. Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties that are restricted in order to fund the expenditures related to specific research projects and stemming from 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)	<u>2018</u>	2017
Opening balance	\$6,831	\$7,116
Amounts received		
Donations	1	2
Cost sharing project deposits	11,899	2,578
Revenue recognized	<u>(2,632)</u>	(2,865)
Closing balance	<u>\$16,099</u>	<u>\$6,831</u>

7. Lease obligation for tangible capital assets

Environment and Climate Change Canada has entered into agreements to lease certain equipment under capital leases with a cost of \$18,199 thousand and accumulated amortization of \$11,647 thousand as at March 31, 2018 (\$18,199 thousand of cost and \$10,919 thousand in accumulated amortization respectively as at March 31, 2017). The obligations related to the upcoming years include Carleton University for which, on October 13, 2000, Environment and Climate Change Canada entered into an agreement to rent office laboratory space for the National Wildlife Research Centre (NWRC), at an annual cost of \$1,300 thousand under a capital lease which expires in 2028.

(in thousands of dollars)	<u>2018</u>
Maturing year	
2019	\$1,300
2020	1,300
2021	1,300
2022	1,300
2023	1,300
2024 and subsequent	<u>5,200</u>
Total future minimum lease payments	11,700
Less: imputed interest (5.63%)	<u>2,714</u>
Balance of obligation under leased tangible capital assets	<u>\$8,986</u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

8. Employee future benefits

(a) Pension benefits

Environment and Climate Change Canada's employees participate in the Public Service Pension Plan (the "Plan"), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. Due to the amendment of the Public Service Superannuation Act following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups - Group 1 related 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 2017-2018 expense amounts to \$57,393 thousand (\$55,858 thousand in 2016-2017). For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016-2017) the employee contributions and, for Group 2 members, approximately 1.00 times (1.08 times in 2016-2017) the employee contributions.

Environment and Climate Change Canada's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the Consolidated Financial Statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

Severance benefits provided to the Environment and Climate Change Canada'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)	<u>2018</u>	<u>2017</u>
Accrued benefit obligation, beginning of year	\$26,260	\$36,426
Expense for the year	3,315	(7,385)
Benefits paid during the year	(2,290)	(2,781)
Accrued benefit obligation, end of year	<u>\$27,285</u>	<u>\$26,260</u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

9. Accounts receivable and advances

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

(in thousands of dollars)	2018	2017
Receivables - Other government departments and agencies	\$6,169	\$5,234
Receivables - External parties	29,004	21,937
Employee advances	435	36
Subtotal	35,608	27,207
Allowance for doubtful accounts on receivables from external parties	(251)	(273)
Gross accounts receivable	35,357	26,934
Accounts receivable held on behalf of Government	(4,208)	(3,333)
Net accounts receivable	\$31,149	\$23,601

10. Inventory

The following table presents details of the inventory:

(in thousands of dollars)	2018	2017
Printed material, books, maps and forms	\$20	\$20
Stationery and office paper supplies	201	348
Meteorological supplies	16,894	17,536
Electric lighting	54	81
Compressed gases and acetylene	9	7
Chemicals and related products	5	6
Scientific & technical equipment	827	684
Radar Equipment	4,050	4,235
General purpose machinery and equipment	4	-
Computer equipment	118	2,615
Laboratory materials and supplies	269	174
Test vehicles	3,446	3,157
Total inventory	\$25,897	\$28,863

Inventory is valued using the moving average price.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

11. Tangible capital assets

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

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

Assets under construction are recorded in the applicable asset class in the year they are put into service and are not amortized until they are put into service.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

11. Tangible capital assets (continued)

Cost

(in thousands of dollars)	2017	Acquisitions	Adjustments ⁽³⁾	Disposals and Write-offs	2018
Land	\$24,336	-	-	\$9	\$24,327
Buildings	217,435	25	(23)	73	217,364
Works and infrastructure	36,640	33	(53)	-	36,620
Machinery and equipment	496,553	11,466	12,356	44,780	475,595
Vehicles ⁽²⁾	41,058	1,649	268	1,864	41,111
Leasehold improvements	39,982	-	164	-	40,146
Assets under construction ⁽¹⁾	120,023	49,322	(11,489)	3,498	154,358
Leased tangible capital asset - building	18,199	-	-	-	18,199
	\$994,226	\$62,495	\$1,223	\$50,224	\$1,007,720

Accumulated amortization

(in thousands of dollars)	2017	Amortization	Adjustments ⁽³⁾	Disposals and Write-offs	2018
Buildings	\$140,338	\$6,244	(\$3)	\$58	\$146,521
Works and infrastructure	10,503	1,693	(\$10)	-	12,186
Machinery and equipment	386,055	37,308	\$451	44,013	379,801
Vehicles ⁽²⁾	29,446	2,248	\$248	1,682	30,260
Leasehold improvements	34,035	1,419	\$19	-	35,473
Leased tangible capital asset - building	10,919	728	-	-	11,647
	\$611,296	\$49,640	\$705	\$45,753	\$615,888

Net book value

(in thousands of dollars)	2017	2018
Land	\$24,336	\$24,327
Buildings	77,097	70,843
Works and infrastructure	26,137	24,434
Machinery and equipment	110,498	95,794
Vehicles ⁽²⁾	11,612	10,851
Leasehold improvements	5,947	4,673
Assets under construction ⁽¹⁾	120,023	154,358
Leased tangible capital asset - building	7,280	6,552
Net Book Value	\$382,930	\$391,832

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

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

⁽³⁾ Adjustments include assets under constructions of \$11,607 thousand that were transferred to the other categories upon completion of the assets, post-capitalization and write-offs for a net book value of \$516 thousand reduced by transfers of tangible capital assets between departments with a net effect of \$2 thousand on the departmental net financial position.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

12. 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 in order to carry out its transfer payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	Operating leases	Transfer payments	Capital Assets	Other	Total
2019	\$12,860	\$104,411	\$15,338	\$18,416	\$151,025
2020	12,860	59,103	17,810	6,700	96,473
2021	12,860	55,510	21,029	5,111	94,510
2022	12,860	66,031	2,544	111	81,546
2023	12,860	-	5,367	244	18,471
2024 and subsequent	282,920	-	-	1,854	284,774
Total	\$347,220	\$285,055	\$62,088	\$32,436	\$726,799

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, royalties, and sales of goods and services. Major contractual rights that will generate revenues in future years and that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	Leases of property	Royalties	Sales of goods and services	Other	Total
2019	-	-	\$14,535	-	\$14,535
2020	-	-	14,079	-	14,079
2021	-	-	13,787	-	13,787
2022	-	-	9,197	-	9,197
2023	-	-	-	-	-
2024 and subsequent	-	-	-	-	-
Total	-	-	\$51,598	-	\$51,598

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

13. Contingent liabilities and contingent asset

a) Contingent liabilities

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

Claims and litigation

Claims have been made against Environment and Climate Change Canada in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. Environment and Climate Change Canada has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$25,680 thousand (\$35,275 thousand in 2016-2017) at March 31, 2018.

b) Contingent asset

Environment and Climate Change Canada has entered into an Agreement in Principle to negotiate a settlement related to the remediation of a lease land. While the amount claimed in this action is significant, the outcome is not determinable.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

14. Related party transactions

Environment and Climate Change Canada is related as a result of common ownership to all government departments, agencies, and Crown corporations. Related parties also include individuals who are members of key management personnel 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.

Environment and Climate Change Canada enters into transactions with these entities in the normal course of business and on normal trade terms.

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

During the year, Environment and Climate Change Canada received services without charge from certain common service organizations, related to accommodation, 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 carrying value in the Department's Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2018	2017
Accommodation	\$50,293	\$49,793
Employer's contribution to the health and dental insurance plans	55,796	49,419
Workers' compensation	985	1,046
Legal services	628	887
Total	\$107,702	\$101,145

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 and agencies :

(in thousands of dollars)	2018	2017
Accounts receivable	\$6,169	\$5,234
Accounts payable	17,203	10,816
Expenses	218,400	185,111
Revenues	27,177	29,640

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

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

15. Transfers from/to other government departments

During the year, Environment and Climate Change Canada transferred tangible capital assets with Agriculture and Agri-Food Canada, Natural Resources and Parks Canada with a net effect of -\$2,107 (\$198,199 in 2016-2017) on the departmental net financial position affecting categories under other vehicles and machinery and equipment. Environment and Climate Change Canada also transferred salary overpayments and emergency salary advances with a net effect of \$62,295 (\$0 in 2016-2017).

(in thousands of dollars)

Assets:

	<u>2018</u>
Tangible capital assets (Note 11)	(\$2)
Salary overpayments and emergency salary advances	<u>62</u>
Total assets transferred	60
Adjustment to Environment and Climate Change Canada net financial position	<u><u>\$60</u></u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

16. Segmented information

Presentation by segment is based on Environment and Climate Change Canada's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated by strategic outcomes, by major object of expense and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)	Conservation of Canada's natural environment	Weather Information	Threats from pollution minimized	Internal Services	2018	2017
Operations and administration						
Salaries and employee benefits	\$202,660	\$172,954	\$210,223	\$178,400	\$764,237	\$641,072
Professional and special services	47,122	8,721	28,981	21,635	106,459	96,350
Accommodation	16,508	10,857	14,938	12,836	55,139	53,268
Amortization of tangible capital assets	9,848	21,913	12,040	5,839	49,640	44,891
Other contracted services	4,964	12,354	2,588	5,984	25,890	25,648
Materials and supplies	8,750	5,750	7,029	2,229	23,758	24,956
Rentals	7,865	2,917	1,366	33,373	45,521	26,058
Travel	10,991	6,349	7,077	3,119	27,536	25,371
Machinery & equipment	7,363	1,729	3,810	2,797	15,699	10,430
Net loss on disposals, write-off and adjustments to tangible capital assets	574	1,679	638	411	3,302	6,523
Environmental liabilities expenditures	-	-	(2,093)	-	(2,093)	54,185
Equipment repair and maintenance	3,383	2,856	2,107	1,159	9,505	10,018
Postage	1,599	1,075	590	441	3,705	4,041
Information services – communications	1,083	430	2,589	749	4,851	4,996
Telecommunications	436	529	71	1,062	2,098	1,978
Earmarked fees and levies	2,008	-	-	-	2,008	1,911
Other	2,298	8,719	1,285	3,426	15,728	8,173
Total Operations and administration	327,452	258,832	293,239	273,460	1,152,983	1,039,869
Transfer payments						
Non-profit organizations	84,707	1,888	69,799	-	156,394	116,443
Other countries and international organizations	2,245	5,635	19,691	-	27,571	24,041
Other levels of governments within Canada	6,106	155	8,093	-	14,354	8,449
Other to individuals	177	6	-	-	183	218
Industry	386	-	668	-	1,054	486
Total Transfer payments	93,621	7,684	98,251	-	199,556	149,637
Total Expenses	421,073	266,516	391,490	273,460	1,352,539	1,189,506
Revenues						
Sales of goods and services	41,531	36,630	3,095	765	82,021	77,968
Other revenues	15,949	3,655	508	582	20,694	18,413
Revenues earned on behalf of Government	(6,075)	(3,401)	139	(978)	(10,315)	(10,977)
Total Revenues	51,405	36,884	3,742	369	92,400	85,404
Net cost of operations	\$369,668	\$229,632	\$387,748	\$273,091	\$1,260,139	\$1,104,102

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

17. Comparative information

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

Environment and Climate Change Canada

**Annex to the
Statement of Management Responsibility
Including Internal Control Over
Financial Reporting 2017-2018**

Environment and Climate Change Canada

**Annex to the Statement of Management Responsibility Including
Internal Control Over Financial Reporting 2017-2018**

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Annex to the Statement of Management Responsibility

1. Introduction

This document provides summary information on the measures taken by Environment and Climate Change Canada (ECCC) to maintain an effective system of Internal Control over Financial Reporting (ICFR), including information on internal control management, assessment results and related action plans.

Detailed information on ECCC's authority, mandate and program activities can be found in the last [Departmental Results Report](#) and the current [Departmental Plan](#).

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

2.1 Internal Control Management

ECCC 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 Head, 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;
- Values and ethics code;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- Semi-annual monitoring of and regular updates on internal control management, as well as the provision of related assessment results and action plans to the Chief Financial Officer and as applicable, departmental senior management.

The Departmental Audit Committee provides advice to the Deputy Head on the adequacy and functioning of the department's risk management, control, governance and processes.

2.2 Service Arrangements Relevant to Financial Statements

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

Common Service Arrangements

- Public Services and Procurement Canada (PSPC) centrally administers the payments of salaries, the procurement of goods and services in accordance with ECCC's Delegation of Authority, and provides accommodation services;
- The Treasury Board of Canada Secretariat (TBS) provides services related to public sector insurance for ECCC employees 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, Quebec Pension Plan and Public Service Supplementary Death Benefit Plan) on behalf of ECCC;

- The Department of Justice provides legal services to ECCC;
- The Public Prosecution Service of Canada provides prosecution services to ECCC; and
- Shared Services Canada provides information technology (IT) infrastructure services to ECCC in the areas of data center and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and ECCC.

Readers of this Annex may refer to the Statement of Management Responsibility (SOMR) Annexes of the above-noted organizations for a greater understanding of the systems of ICFR related to these specific services.

Specific Arrangements

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

3. Departmental Assessment Results During Fiscal Year 2017-2018

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

Progress during the 2017-2018 fiscal year	
Previous year's rotational Ongoing monitoring plan for current year	Status
Entity Level Controls	Completed as planned; remedial actions in progress
Information Technology General Controls	Completed as planned; remedial actions in progress
Payroll	Completed as planned; remedial actions started
Operating expenditures	Completed as planned; no remedial actions required
Capital expenditures	In progress
Revenue	In progress

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

In 2017-2018, ECCC reviewed its business processes in order to reassess and rationalize the list of key internal controls. This standardization will facilitate future assessments.

3.2 Ongoing Monitoring Program

In 2017-2018, ECCC followed its rotational ongoing monitoring plan of internal controls over financial management as per the Treasury Board Financial Management Policy Suite requirements. This plan is consistent with the SOMR and is reviewed based on emerging priorities.

As such, the department completed the reassessment of Entity level controls and Information technology general controls (ITGC), as well as the testing of Operating expenditures through post payment verification.

The Department continues to be proactive in addressing potential issues around the implementation of the Phoenix pay system. ECCC reviewed the Payroll process documentation, such as process maps and control matrix, and implemented additional controls, including periodic analysis, payment issues reporting and clarification of roles and responsibilities in order to provide additional assurance on the accuracy of salary expenditures. Furthermore, additional resources continue to analyze data from Phoenix and My Government of Canada Human Resources (My GCHR) to identify root causes and to mitigate against future issues.

The key controls that were tested performed as intended, with remediation required as follows:

- Implement the Business Continuity Plan for the essential financial functions (EFF), recently approved by the Chief Financial Officer. This plan is to be leveraged for disruptive events as well as for identification and documentation of required EFF survival procedures.
- Increase Departmental employee's fraud awareness through development of a guide currently under approval and start implementing a data analytics function, including quarterly monitoring. These recommendations are part of the Entity level controls area.
- Obtain assurance from the Common Service Providers via their SOMR that their ITGC operate effectively (over system changes, online transaction processing, backup and recovery of data, and business continuity planning) for the services they provide to ECCC.

Capital expenditures and Revenues were part of ECCC's 2016-2017 Ongoing monitoring plan and the reassessment is underway. Completion of these reassessments is expected by fall 2018 and current status is provided below:

Capital expenditures

As a result of the review of the key controls presented in section 3.1, the scope of the work planned for Capital expenditures was revised to include IT assets, equipment and inventory. Work is underway to better understand the context of:

- Capitalization of software development costs;
- Asset tracking monitoring and accountability; and
- Staff training on the management and maintenance of asset records.

Revenues

ECCC has completed the review of documentation pertaining to the revenue mechanism assessment tools form, the standardized financial arrangement templates and the training provided to employees involved in the process. The elements of authorities, decision-making and accountabilities were also documented through the Departmental Delegation of Spending and Financial Signing Authorities and the Departmental Revenue Policy. Work is underway to test the operational effectiveness of related key controls.

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

ECCC's rotational ongoing monitoring plan has been revised to reflect changes in departmental priorities and results from the 2017-2018 Annual Risk-Based Assessment that identifies areas of high risk in the departmental system of ICFR.

In June 2018, the Office of the Comptroller General has indicated upcoming new Management Accountability Framework requirements. As such, the ECCC adjusted its current plan to include an assessment of internal controls specific to the following Financial Management processes:

- Budgeting and forecasting;
- Costing;
- Investment planning; and
- CFO attestation for Cabinet Submissions.

Therefore, ECCC Ongoing Monitoring plan has been extended over a period of five years in compliance with TBS Guide to Ongoing Monitoring of Internal Controls Over Financial Management. This will ensure a better balance between available resources and workload in addressing areas of high risks.

Rotational Ongoing Monitoring Plan*					
Key control areas	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Entity Level Controls	No	No	Yes	No	No
Information Technology General Controls	No	No	Yes	No	No
Payroll	Yes	Yes	Yes	Yes	Yes
Operating expenditures	Yes	Yes	Yes	Yes	Yes
Capital expenditures	Yes	No	No	No	No
Grants and contributions	No	Yes	Yes	No	No
Revenue	Yes	No	No	No	No
Financial close and reporting	No	Yes	Yes	No	No
Environmental liabilities	No	Yes	Yes	No	No
Budgeting and forecasting	Yes	Yes	No	No	No
Costing	No	Yes	Yes	No	No

Rotational Ongoing Monitoring Plan*					
Key control areas	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Investment planning	No	Yes	Yes	No	No
CFO attestation for Cabinet Submissions	Yes	Yes	No	No	No

** Information for years 2021-2022 and 2022-2023 is preliminary and will be refined after the next annual risk-based assessment of the system of ICFR.*

In addition, ECCC plans to enhance its approach to monitoring of controls including the development of data analytics methodology for the following areas: anomaly detection, internal controls, compliance with policies, and sound financial management practices and decision-making.

Finally, ECCC will also strengthen its control of salary expenditures through post-payment verification of pay transactions, as recommended in the TBS Guideline on “Financial Management of Pay Administration”.