



Environment and
Climate Change Canada

Environnement et
Changement climatique Canada

DEPARTMENTAL FINANCIAL STATEMENTS (unaudited)

2018-2019



Canada 

Statement of Management Responsibility Including Internal Control over Financial Reporting 2018-19

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2019, and all information contained in these financial statements rests with the management of Environment and Climate Change Canada. 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.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of Environment and Climate Change Canada's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in Environment and Climate Change Canada's *Departmental 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 Environment and Climate Change Canada and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess the 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, 2019, 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 reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Environment and Climate Change Canada's operations, and by the 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 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)

	2019	2018
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$438,738	\$226,552
Vacation pay and compensatory leave	42,244	39,789
Deferred revenue (Note 6)	26,606	16,099
Lease obligation for tangible capital assets (Note 7)	8,192	8,986
Employee future benefits (Note 8)	26,555	27,285
Environmental liabilities (Note 5)	213,611	193,510
Other liabilities	676	1,589
Total liabilities	756,622	513,810
Financial assets		
Due from Consolidated Revenue Fund	420,054	215,524
Accounts receivable and advances (Note 9)	30,535	35,357
Total gross financial assets	450,589	250,881
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(4,472)	(4,208)
Total net financial assets	446,117	246,673
DEPARTMENTAL NET DEBT	310,505	267,137
Non-financial assets		
Prepaid expenses	820	1,077
Inventory (Note 10)	25,538	25,897
Tangible capital assets (Note 11)	426,648	391,832
Total non-financial assets	453,006	418,806
DEPARTMENTAL NET FINANCIAL POSITION	\$142,501	\$151,669

Contractual obligations and contractual rights (Note 12)

Contingent liabilities and contingent assets (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)		
	2019	2019	2018
Expenses			
Taking Action on Clean Growth and Climate Change	\$582,611	\$349,136	\$181,523
Preventing and Managing Pollution	384,213	425,168	377,045
Conserving Nature	186,566	254,561	221,012
Predicting Weather and Environmental Conditions	287,379	289,328	299,499
Internal services	222,147	250,824	273,460
Total expenses	1,662,916	1,569,017	1,352,539
Revenues			
Sales of goods and services	82,032	81,328	82,021
Other revenues	22,420	23,768	20,694
Revenues earned on behalf of Government	(9,980)	(9,614)	(10,315)
Total revenues	94,472	95,482	92,400
Net cost of operations before government funding and transfers	1,568,444	1,473,535	1,260,139
Government funding and transfers			
Net cash provided by Government		1,155,672	1,054,399
Change in due from Consolidated Revenue Fund		204,530	80,630
Services provided without charge by other government departments (Note 14)		104,236	107,702
Transfer of the transition payments for implementing salary payments in arrears		-	(8)
Transfer of tangible capital assets from (to) other government departments (Note 15)		(78)	2
Transfer of salary overpayments and emergency salary advances from (to) other government departments (Note 15)		7	(62)
Net cost of operations after government funding and transfers		9,168	17,476
Departmental net financial position - Beginning of year		151,669	169,145
Departmental net financial position - End of year		\$142,501	\$151,669

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)

	<u>2019</u>	<u>2018</u>
Net cost of operations after government funding and transfers	\$9,168	\$17,476
Change due to tangible capital assets		
Acquisition of tangible capital assets (Note 11)	80,495	62,495
Amortization of tangible capital assets (Note 11)	(40,463)	(49,640)
Proceeds from disposal of tangible capital assets	(964)	(653)
Net loss on disposals, write-off and adjustments to tangible capital assets	(4,174)	(3,302)
Transfer from (to) other government departments (Note 15)	(78)	2
Total change due to tangible capital assets	34,816	8,902
Change due to inventories (Note 10)	(359)	(2,966)
Change due to prepaid expenses	(257)	87
Net increase in departmental net debt	43,368	23,499
Departmental net debt - Beginning of year	267,137	243,638
Departmental net debt - End of year	\$310,505	\$267,137

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)

	2019	2018
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$1,473,535	\$1,260,139
Non-cash items:		
Services provided without charge by other government departments (Note 14)	(104,236)	(107,702)
Amortization of tangible capital assets (Note 11)	(40,463)	(49,640)
Net loss on disposals, write-off and adjustments to tangible capital assets	(4,174)	(3,302)
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)	(212,186)	(85,317)
Decrease (increase) in vacation pay and compensatory leave	(2,455)	(17,886)
Decrease (increase) in deferred revenue (Note 6)	(10,507)	(9,268)
Decrease (increase) in employee future benefits (Note 8)	730	(1,025)
Decrease (increase) in environmental liabilities (Note 5)	(20,101)	2,093
Decrease (increase) in other liabilities	913	(1,026)
Increase (decrease) in accounts receivable and advances (Note 9)	(5,086)	7,548
Increase (decrease) in prepaid expenses	(257)	87
Increase (decrease) in inventory (Note 10)	(359)	(2,966)
Transfer of salary overpayments and emergency salary advances (from) to other government departments (Note 15)	(7)	62
Cash used in operating activities	1,075,347	991,805
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets (Note 11)	80,495	62,495
Proceeds from disposal of tangible capital assets	(964)	(653)
Cash used in capital investing activities	79,531	61,842
FINANCING ACTIVITIES		
Lease payments for tangible capital assets	794	752
Cash used in financing activities	794	752
NET CASH PROVIDED BY GOVERNMENT OF CANADA	\$1,155,672	\$1,054,399

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 four (4) following Core Responsibilities:

- ✓ **Taking Action on Clean Growth and Climate Change**

Through engagement with other federal departments and agencies, provinces, territories, Indigenous Peoples, and other stakeholders, and external experts, the Department will support and coordinate the implementation of the Pan-Canadian Framework on Clean Growth and Climate Change (PCF); work to reduce Canadian greenhouse gas (GHG) emissions; drive clean growth; develop regulatory instruments; support businesses and Canadians to adapt and become more resilient to climate change; and contribute to international climate change actions to increase global benefits.

- ✓ **Preventing and Managing Pollution**

Collaborate with provinces, territories, Indigenous peoples and others to develop and administer environmental standards, guidelines, regulations and other risk management instruments to reduce releases and monitor levels of contaminants in air, water and soil; and promote and enforce compliance with environmental laws and regulations.

- ✓ **Conserving Nature**

Protect and recover species at risk and their critical habitat; conserve and protect healthy populations of migratory birds; engage and enable provinces and territories, Indigenous Peoples, stakeholders, and the public to increase protected areas and contribute to conservation and stewardship activities; expand and manage the Department's protected areas; and collaborate with domestic and international partners to advance the conservation of biodiversity and sustainable development.

- ✓ **Predicting Weather and Environmental Conditions**

Monitor weather, water, air quality and climate conditions; provide forecasts, information and warnings to the Canadian public and targeted sectors through a range of service delivery options; conduct research; develop and maintain computer-based models for predicting weather and other environmental conditions; and collaborate and exchange data with other national meteorological services and with international organizations.

The Internal Services Program includes groups of related activities and resources that are administered to support the Department's Core Responsibilities 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*

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives (continued)

- ✓ *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*
- ✓ *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 2018-19 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 2018-19 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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(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.
- ✓ 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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(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.

(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)

	2019	2018
Net cost of operations before government funding and transfers	\$1,473,535	\$1,260,139
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (Note 11)	(40,463)	(49,640)
Net loss on disposals, write-off and adjustments to tangible capital assets	(4,174)	(3,302)
Common services provided without charge by other government departments (Note 14)	(104,236)	(107,702)
Refunds/adjustments to previous years' expenses	3,533	3,531
Decrease (increase) in accrued liabilities not charged to authorities	4,044	8,018
Decrease (increase) in vacation pay and compensatory leave	(2,455)	(17,886)
Decrease (increase) in employee future benefits (Note 8)	730	(1,025)
Decrease (increase) in environmental liabilities (Note 5)	(20,101)	2,093
Increase (decrease) in inventory (Note 10)	(359)	(2,966)
Other	(1,128)	779
Total items affecting net cost of operations but not affecting authorities	(164,609)	(168,100)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (Note 11)	80,495	62,495
Transition payments for implementing salary payments in arrear	-	8
Increase (decrease) in prepaid expenses	(257)	87
Salary Overpayments	3,311	8,926
Other Loans and advances to employees	247	500
Lease payments for tangible capital assets	794	752
Other	(161)	-
Total items not affecting net cost of operations but affecting authorities	84,429	72,768
Current year authorities used	\$1,393,355	\$1,164,807

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

3. Parliamentary authorities (continued)

(b) Authorities provided and used:

(in thousands of dollars)

	<u>2019</u>	<u>2018</u>
Authorities provided		
Vote 1 - Operating expenditures	\$837,420	\$837,506
Vote 5 - Capital expenditures	92,041	84,575
Vote 10 - Grants & Contributions	640,600	309,277
Statutory amounts	90,900	85,585
	<u>1,660,961</u>	<u>1,316,943</u>
Less:		
Authorities available for future years	(769)	(796)
Lapsed authorities	(266,837)	(151,340)
	<u>(267,606)</u>	<u>(152,136)</u>
Current year authorities used	<u>\$1,393,355</u>	<u>\$1,164,807</u>

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)

	<u>2019</u>	<u>2018</u>
Accounts payable - Other government departments and agencies	\$21,218	\$17,203
Accounts payable - External parties	132,209	169,052
Total accounts payable	<u>153,427</u>	<u>186,255</u>
Accrued liabilities	285,311	40,297
Total accounts payable and accrued liabilities	<u>\$438,738</u>	<u>\$226,552</u>

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 90 sites (80 sites in 2017-18) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified approximately 17 sites (17 sites in 2017-18) where action is required and for which a gross liability of 200,922 thousand (180,882 thousand in 2017-18) 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 9 unassessed sites (21 sites in 2017-18) where a liability estimate of \$291 thousand (\$230 thousand in 2017-18) has been recorded using this model.

Moreover, there is 1 site that has not been assessed by environmental experts (1 site in 2017-18) for which the department has estimated and recorded a liability of \$12,398 thousand (\$12,398 thousand in 2017-18).

These three estimates combined, totalling \$213,611 thousand (\$193,510 thousand in 2017-18), 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 63 sites (41 sites in 2017-18), 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, 2019, and March 31, 2018. 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% (1.9% in 2017-18). 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 2019 rates range from 1.55% (1.79% in 2018) for 2 year term to 1.96% (2.24% in 2018) for a 30 or greater year term.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Environmental liability (continued)

Nature and Source (in thousands of dollars)	2019					2018				
	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	-	-	-	-	1	-	-	-	-
Fuel Related Practices ⁽²⁾	26	10	55,446	57,830	-	23	16	31,577	24,269	-
Marine Facilities / Aquatic Sites ⁽³⁾	16	8	155,808	172,190	-	13	7	159,519	186,218	-
Parks and Protected Areas ⁽⁴⁾	32	7	383	404	-	29	13	472	433	-
Office / commercial / industrial operations ⁽⁵⁾	15	2	1,974	2,135	-	14	3	1,942	1,891	-
Totals	90	27	\$213,611	\$232,559	-	80	39	\$193,510	\$212,811	-

⁽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)	2019	2018
Opening balance	\$16,099	\$6,831
Amounts received		
Donations	1	1
Cost sharing project deposits	18,419	11,899
Disposal at sea permit fees	161	-
Revenue recognized	(8,074)	(2,632)
Closing balance	\$26,606	\$16,099

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 \$12,375 thousand as at March 31, 2019 (\$18,199 thousand of cost and \$11,647 thousand in accumulated amortization respectively as at March 31, 2018). 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)	2019
Maturing year	
2020	\$1,300
2021	1,300
2022	1,300
2023	1,300
2024	1,300
2025 and subsequent	3,900
Total future minimum lease payments	10,400
Less: imputed interest (5.63%)	2,208
Balance of obligation under leased tangible capital assets	\$8,192

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 2018-2019 expense amounts to \$62,010 thousand (\$57,393 thousand in 2017-2018). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2017-2018) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2017-2018) 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, 2019, 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)	2019	2018
Accrued benefit obligation, beginning of year	\$27,285	\$26,260
Expense for the year	3,766	3,315
Benefits paid during the year	(4,496)	(2,290)
Accrued benefit obligation, end of year	\$26,555	\$27,285

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)	2019	2018
Receivables - Other government departments and agencies	\$4,142	\$6,169
Receivables - External parties	26,169	29,004
Employee advances	494	435
Subtotal	30,805	35,608
Allowance for doubtful accounts on receivables from external parties	(270)	(251)
Gross accounts receivable	30,535	35,357
Accounts receivable held on behalf of Government	(4,472)	(4,208)
Net accounts receivable	\$26,063	\$31,149

10. Inventory

The following table presents details of the inventory:

(in thousands of dollars)	2019	2018
Printed material, books, maps and forms	\$18	\$20
Stationery and office paper supplies	200	201
Meteorological supplies	16,820	16,894
Electric lighting	44	54
Compressed gases and acetylene	3	9
Chemicals and related products	5	5
Scientific & technical equipment	896	827
Radar Equipment	3,729	4,050
General purpose machinery and equipment	4	4
Computer equipment	88	118
Laboratory materials and supplies	308	269
Test vehicles	3,423	3,446
Total inventory	\$25,538	\$25,897

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)

	2018	Acquisitions	Adjustments ⁽³⁾	Disposals and Write-offs	2019
Land	\$24,327	\$55	-	\$66	\$24,316
Buildings	217,364	-	11,894	490	228,768
Works and infrastructure	36,620	-	529	14	37,135
Machinery and equipment	475,595	13,340	14,695	38,437	465,193
Vehicles ⁽²⁾	41,111	1,884	(17)	1,922	41,056
Leasehold improvements	40,146	-	53	-	40,199
Assets under construction ⁽¹⁾	154,358	65,216	(26,661)	4,536	188,377
Leased tangible capital asset - building	18,199	-	-	-	18,199
	\$1,007,720	\$80,495	\$493	\$45,465	\$1,043,243

Accumulated amortization

(in thousands of dollars)

	2018	Amortization	Adjustments ⁽³⁾	Disposals and Write-offs	2019
Buildings	\$146,521	\$7,282	-	\$385	\$153,418
Works and infrastructure	12,186	1,748	-	4	13,930
Machinery and equipment	379,801	27,188	(\$124)	37,365	369,500
Vehicles ⁽²⁾	30,260	2,206	(\$17)	1,861	30,588
Leasehold improvements	35,473	1,311	-	-	36,784
Leased tangible capital asset - building	11,647	728	-	-	12,375
	\$615,888	\$40,463	(\$141)	\$39,615	\$616,595

Net book value

(in thousands of dollars)

	2018	2019
Land	\$24,327	\$24,316
Buildings	70,843	75,350
Works and infrastructure	24,434	23,205
Machinery and equipment	95,794	95,693
Vehicles ⁽²⁾	10,851	10,468
Leasehold improvements	4,673	3,415
Assets under construction ⁽¹⁾	154,358	188,377
Leased tangible capital asset - building	6,552	5,824
Net Book Value	\$391,832	\$426,648

⁽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 \$27,189 thousand that were transferred to the other categories upon completion of the assets, post-capitalization and write-offs for a net book value of \$712 thousand reduced by transfers of tangible capital assets between departments with a net effect of \$78 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
2020	\$12,860	\$354,131	\$25,875	\$19,238	\$412,104
2021	12,860	273,438	13,900	-	300,198
2022	12,860	224,850	8,000	-	245,710
2023	12,860	7,471	7,842	-	28,173
2024	12,860	-	-	-	12,860
2025 and subsequent	270,060	-	-	-	270,060
Total	\$334,360	\$859,890	\$55,617	\$19,238	\$1,269,105

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
2020	-	-	\$14,516	-	\$14,516
2021	-	-	14,332	-	14,332
2022	-	-	9,667	-	9,667
2023	-	-	-	-	-
2024	-	-	-	-	-
2025 and subsequent	-	-	-	-	-
Total	-	-	\$38,515	-	\$38,515

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

13. Contingent liabilities and contingent assets

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 \$64,627 thousand (\$25,680 thousand in 2017-18) at March 31, 2019.

b) Contingent assets

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)	2019	2018
Accommodation	\$49,855	\$50,293
Employer's contribution to the health and dental insurance plans	52,826	55,796
Workers' compensation	895	985
Legal services	660	628
Total	\$104,236	\$107,702

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)	2019	2018
Accounts receivable	\$4,142	\$6,169
Accounts payable	21,218	17,203
Expenses	224,976	218,400
Revenues	27,720	27,177

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 \$77,693 (-\$2,107 in 2017-18) 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 -\$7,397 (\$62,295 in 2017-18).

(in thousands of dollars)

Assets:

	<u>2019</u>
Tangible capital assets (Note 11)	\$78
Salary overpayments and emergency salary advances	(7)
Total assets transferred	<u>70</u>
Adjustment to Environment and Climate Change Canada net financial position	<u><u>\$70</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)	Taking Action on Clean Growth and Climate Change	Preventing and Managing Pollution	Conserving Nature	Predicting Weather and Environmental Conditions	Internal Services	2019	2018
Operations and administration							
Salaries and employee benefits	\$59,397	\$234,438	\$113,030	\$191,086	\$166,205	\$764,156	\$764,236
Professional and special services	9,398	53,550	13,966	11,375	23,039	111,328	106,460
Accommodation	4,026	18,983	7,571	12,040	11,493	54,113	55,139
Amortization of tangible capital assets	946	17,686	2,589	12,392	6,850	40,463	49,641
Other contracted services	1,690	5,116	2,826	9,549	6,272	25,453	25,890
Materials and supplies	553	10,191	3,461	7,364	2,656	24,225	23,759
Rentals	597	2,019	4,071	6,888	17,394	30,969	45,521
Travel	3,367	9,749	7,877	9,286	3,856	34,135	27,535
Machinery & equipment	770	4,975	3,166	4,440	4,826	18,177	15,697
Net loss on disposals, write-off and adjustments to tangible capital assets	120	1,570	159	1,455	870	4,174	3,302
Environmental liability adjustments	-	20,102	-	-	-	20,102	(2,093)
Equipment repair and maintenance	96	4,024	1,114	4,416	1,011	10,661	9,505
Postage	61	1,155	1,052	1,116	544	3,928	3,705
Information services – communications	467	1,623	702	392	2,883	6,067	4,850
Telecommunications	10	279	340	601	1,049	2,279	2,098
Earmarked fees and levies	-	3,684	7	-	-	3,691	2,008
Other	(115)	1,226	1,171	9,324	1,876	13,482	15,730
Total Operations and administration	81,383	390,370	163,102	281,724	250,824	1,167,403	1,152,983
Transfer payments							
Non-profit organizations	10,681	31,575	77,313	1,528	-	121,097	156,394
Other countries and international organization	23,454	803	2,520	5,961	-	32,738	27,571
Other levels of governments within Canada	232,755	2,385	8,606	90	-	243,836	14,354
Other to individuals	-	-	2,857	25	-	2,882	183
Industry	863	35	163	-	-	1,061	1,054
Total Transfer payments	267,753	34,798	91,459	7,604	-	401,614	199,556
Total Expenses	349,136	425,168	254,561	289,328	250,824	1,569,017	1,352,539
Revenues							
Sales of goods and services	463	22,570	4,987	52,643	665	81,328	82,021
Other revenues	10	16,418	1,057	6,245	38	23,768	20,694
Revenues earned on behalf of Government	(31)	(1,144)	(1,785)	(5,974)	(680)	(9,614)	(10,315)
Total Revenues	442	37,844	4,259	52,914	23	95,482	92,400
Net cost of operations	\$348,694	\$387,324	\$250,302	\$236,414	\$250,801	\$1,473,535	\$1,260,139

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 2018-19

Environment and Climate Change Canada

**Annex to the Statement of Management Responsibility Including
Internal Control Over Financial Reporting 2018-19**

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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 to, internal control management, with related assessment results and action plans provided to the Deputy Minister and senior departmental management, and as applicable, the Departmental Audit Committee (DAC).

The DAC provides advice to the Deputy Minister 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) provides accommodation services and administers the procurement of goods and services, and the payments of salaries in accordance with ECCC's delegation of authorities. ECCC relies on the effectiveness of the PSPC Phoenix pay system and related activities and practices;
- Shared Services Canada provides information technology (IT) infrastructure services to ECCC in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and ECCC;
- The Department of Justice provides legal services to ECCC;
- The Public Prosecution Service of Canada provides prosecution services to ECCC; and

- The Treasury Board of Canada Secretariat 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 on behalf of ECCC (i.e. the Public Service Pension Plan, Employment Insurance Plan, Canada Pension Plan, Quebec Pension Plan and Public Service Supplementary Death Benefit Plan).

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.

3. Departmental Assessment Results During Fiscal Year 2018-19

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

Progress during the 2018-19 fiscal year	
Previous year’s rotational ongoing monitoring plan for current year	Status
Pay Administration	In progress, as planned
Operating Expenditures	Completed as planned; remedial actions started
Capital Expenditures	Completed as planned; remedial actions started
Revenue, Receivables and Receipts	Completed as planned; remedial actions started
Budgeting and Forecasting	In progress, as planned
Chief Financial Officer Attestation for Cabinet Submissions	In progress, as planned

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

Significant efforts, including the use of data analytics, were deployed this fiscal year to enhance the control framework for the Pay Administration process. Key changes made to the ECCC process include the establishment of a quality assurance program for monitoring the accuracy of pay transactions and reviewing the internal control descriptions. Also, ECCC established a Business Continuity Management Program for Essential Financial Functions as well as a Fraud Awareness Guide for ECCC employees to enhance awareness and provide guidance.

3.2 Ongoing Monitoring Program

In 2018-19, 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 performed an assessment of the following business processes: Pay Administration, Operating Expenditures, Capital Expenditures, Revenue, Receivables and Receipts, Budgeting and Forecasting, and Chief Financial Officer (CFO) Attestation for Cabinet Submissions.

Pay Administration

The Department continues to be proactive in addressing potential issues around the implementation of the Phoenix pay system. ECCC reviewed the Pay Administration process and implemented additional controls to better align the process with TBS requirements. The updated Pay Administration process mirrors the TBS Guideline on Financial Management of Pay Administration requirements and is aligned with the March 2019 TBS Practitioners' guide on implementing a departmental financial management control framework for pay administration.

Enhancements included establishment of a quality assurance program on Pay Administration, including post payment verification of pay transactions, 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 ECCC resources continue to analyze data from Phoenix and the departmental human resources management system to identify root causes and to mitigate against future issues.

ECCC is planning to reach the ongoing monitoring status on Pay Administration during 2019-20 as presented in the departmental action plan for the next fiscal year and subsequent years.

Operating Expenditures

Operating Expenditures include: Procure to Pay; Travel; Administration of Acquisition and Fleet Cards; and Delegation of Financial and Spending Authorities. At ECCC, these types of expenditures are subject to a quarterly account verification. An Account Verification Awareness Program is in place and contributes to communicating the quarterly results to delegated managers.

This year's assessment concluded that controls on high risk expenditures were effective. In addition, new control measures are being implemented to support ECCC delegated managers in reducing error rates in the low and medium-risk category, such as referring to central repositories to confirm the existence of supporting documentation and issuing awareness for delegated managers on the proper claiming of travel expenses.

Capital Expenditures

The Capital Expenditures process is at the ongoing monitoring stage. This year's assessment was extended to the following business processes: Manage Other Capital Assets; Real Property; Inventory; Equipment; and IT Assets, Equipment and Inventory.

The assessment concluded that roles and responsibilities were broadly defined but not implemented or communicated at the operational level and that financial delegated authorities for disposals or write-offs were not always applied as intended.

A new full assessment of Capital Expenditures is planned for 2022-23, following the implementation of the related remediation action plan.

Revenue, Receivables and Receipts

ECCC has completed the operational effectiveness testing of the Revenue, Receivables and Receipts process and is now at the ongoing monitoring stage.

This year's assessment concluded that ECCC management action plans following recommendations made in 2015-16 were generally implemented as intended. Bank deposits and all funds received were reconciled on a regular basis and credit memos and adjustments were properly used, with minor exceptions.

Budgeting and Forecasting

Budgeting and Forecasting was part of ECCC's 2018-19 ongoing monitoring plan.

ECCC has already assessed the design of the process and the assessment of the effectiveness of related key controls is underway.

CFO Attestation for Cabinet Submissions

CFO Attestation for Cabinet Submissions was part of ECCC's 2018-19 ongoing monitoring plan.

ECCC has completed the review of documentation pertaining to the CFO Attestation for Cabinet Submissions process and has developed internal templates and checklists to improve the process. Completion of the assessment for this process is underway.

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

In 2016 and as validated by Management Accountability Framework assessment results, ECCC reached the ongoing monitoring status on all processes related to ICFR. Since then, ECCC implemented a risk-based ongoing monitoring program and conducted an annual risk-based assessment to monitor the effectiveness of its ICFR. In 2018, the scope of this monitoring was extended to include its Internal Control over Financial Management (ICFM).

Ongoing monitoring involves:

- Using a risk-based approach;
- Assessing the design and operating effectiveness of internal controls regularly in accordance with the monitoring plan; and
- Determining whether any actions need to be taken to address weaknesses.

Ongoing monitoring of internal controls begins after completion of initial control assessment.

The control assessment involves:

- Documenting the controls;
- Testing for design effectiveness and operating effectiveness; and
- Developing a management action plan to correct gaps or weaknesses.

ECCC's five-year risk-based ongoing monitoring plan is rotational and it is based on the 2018-19 risk assessment results of ICFM processes (including ICFR processes), the departmental

priorities, the available resources and workload and other considerations that have an impact on the plan.

Rotational ongoing monitoring plan					
Key control areas	2019-20	2020-21	2021-22	2022-23	2023-24
Entity Level Controls (ICFR)				√	√
Information Technology General Controls (ICFR)			√	√	
Pay Administration (ICFM and ICFR)	√	√	√	√	√
Operating Expenditures (ICFR)	√	√	√	√	√
Capital Expenditures (ICFR)				√	√
Grants & Contributions (ICFR)			√	√	
Budgeting and Forecasting (ICFM)	√	√			
Costing (ICFM)	√	√	√		
Investment Planning (ICFM)	√	√			
CFO Attestation for Cabinet Submissions (ICFM)	√				
Monitoring of Management Action Plans (all ICFM processes)	√	√	√	√	√

In addition, ECCC will continue to enhance its approach to monitoring of controls through the use of data analytics to support sound financial management practices and decision-making.

Finally, ECCC will also continue to strengthen its control of salary expenditures, notably through participating in Government of Canada horizontal initiatives.