



DEPARTMENTAL FINANCIAL STATEMENTS (unaudited)

2019-20



Statement of Management Responsibility Including Internal Control over Financial Reporting 2019-2020

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2020, 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 the 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, 2020, was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of Environment and Climate Change Canada's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of Environment and Climate Change Canada's operations, and by the 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)

T. Christine Hogan

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)

	2020	2019
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$454,352	\$438,738
Vacation pay and compensatory leave	51,353	42,244
Deferred revenue (Note 6)	35,473	26,606
Lease obligation for tangible capital assets (Note 7)	7,353	8,192
Employee future benefits (Note 8)	27,266	26,555
Environmental liabilities (Note 5)	206,022	213,611
Provision for contingent liabilities (Note 13)	22,293	150
Other liabilities	71	526
Total liabilities	804,183	756,622
Financial assets		
Due from Consolidated Revenue Fund	431,809	420,054
Accounts receivable and advances (Note 9)	30,154	30,535
Total gross financial assets	461,963	450,589
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(15,731)	(14,098)
Total net financial assets	446,232	436,491
DEPARTMENTAL NET DEBT	357,951	320,131
Non-financial assets		
Prepaid expenses	730	820
Inventory (Note 10)	24,237	25,538
Tangible capital assets (Note 11)	481,496	426,648
Total non-financial assets	506,463	453,006
DEPARTMENTAL NET FINANCIAL POSITION	\$148,512	\$132,875

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)

T. Christine Hogan

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)		
	2020	2020	2019
Expenses			
Taking Action on Clean Growth and Climate Change	\$719,050	\$399,391	\$349,136
Preventing and Managing Pollution	386,960	427,564	425,168
Conserving Nature	318,328	312,679	254,561
Predicting Weather and Environmental Conditions	296,319	292,064	289,328
Internal services	235,409	282,297	250,824
Total expenses	1,956,066	1,713,995	1,569,017
Revenues			
Sales of goods and services	80,974	79,006	81,328
Other revenues	38,817	224,808	23,768
Revenues earned on behalf of Government	(11,793)	(8,833)	(9,614)
Total revenues	107,998	294,981	95,482
Net cost of operations before government funding and transfers	1,848,068	1,419,014	1,473,535
Government funding and transfers			
Net cash provided by Government		1,308,699	1,146,046
Change in due from Consolidated Revenue Fund		11,755	204,530
Services provided without charge by other government departments (Note 14)		113,784	104,236
Transfer of tangible capital assets from (to) other government departments (Note 15)		281	(78)
Transfer of salary overpayments and emergency salary advances from (to) other government departments (Note 15)		132	7
Net cost of operations after government funding and transfers		(15,637)	18,794
Departmental net financial position - Beginning of year		132,875	151,669
Departmental net financial position - End of year		\$148,512	\$132,875

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>2020</u>	<u>2019</u>
Net cost of operations after government funding and transfers	(\$15,637)	\$18,794
Change due to tangible capital assets		
Acquisition of tangible capital assets (Note 11)	99,141	80,495
Amortization of tangible capital assets (Note 11)	(40,408)	(40,463)
Proceeds from disposal of tangible capital assets	(981)	(964)
Net loss on disposals, write-off and adjustments to tangible capital assets	(3,185)	(4,174)
Transfer from (to) other government departments (Note 15)	281	(78)
Total change due to tangible capital assets	<u>54,848</u>	<u>34,816</u>
Change due to inventories (Note 10)	(1,301)	(359)
Change due to prepaid expenses	(90)	(257)
Net increase in departmental net debt	<u>37,820</u>	<u>52,994</u>
Departmental net debt - Beginning of year	<u>320,131</u>	<u>267,137</u>
Departmental net debt - End of year	<u>\$357,951</u>	<u>\$320,131</u>

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)

	2020	2019
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$1,419,014	\$1,473,535
Non-cash items:		
Services provided without charge by other government departments (Note 14)	(113,784)	(104,236)
Amortization of tangible capital assets (Note 11)	(40,408)	(40,463)
Net loss on disposals, write-off and adjustments to tangible capital assets	(3,185)	(4,174)
Variations in Statement of Financial Position:		
Decrease (increase) in accounts payable and accrued liabilities (Note 4)	(15,614)	(212,186)
Decrease (increase) in vacation pay and compensatory leave	(9,109)	(2,455)
Decrease (increase) in deferred revenue (Note 6)	(8,867)	(10,507)
Decrease (increase) in employee future benefits (Note 8)	(711)	730
Decrease (increase) in environmental liabilities (Note 5)	7,589	(20,101)
Decrease (increase) in provision for contingent liabilities (Note 13)	(22,143)	-
Decrease in other liabilities	455	913
Increase (decrease) in accounts receivable and advances (Note 9)	(2,014)	(14,712)
Increase (decrease) in prepaid expenses	(90)	(257)
Increase (decrease) in inventory (Note 10)	(1,301)	(359)
Transfer of salary overpayments and emergency salary advances (from) to other government departments (Note 15)	(132)	(7)
Cash used in operating activities	1,209,700	1,065,721
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets (Note 11)	99,141	80,495
Proceeds from disposal of tangible capital assets	(981)	(964)
Cash used in capital investing activities	98,160	79,531
FINANCING ACTIVITIES		
Lease payments for tangible capital assets	839	794
Cash used in financing activities	839	794
NET CASH PROVIDED BY GOVERNMENT OF CANADA	\$1,308,699	\$1,146,046

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*
- ✓ *Arctic Waters Pollution Prevention Act*
- ✓ *Bridge to Strengthen Trade Act*
- ✓ *Canada Emission Reduction Incentives Agency Act*
- ✓ *Canada Foundation for Sustainable Development Technology Act*
- ✓ *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act*

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives (continued)

- ✓ *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 Protection Act, 1999*
- ✓ *Department of the Environment Act*
- ✓ *Emergency Management Act*
- ✓ *Energy Supplies Emergency Act*
- ✓ *Environmental Enforcement Act*
- ✓ *Environmental Violations Administrative Monetary Penalties Act*
- ✓ *Federal Sustainable Development Act*
- ✓ *Fisheries Act (Sections 36-42)*
- ✓ *Greenhouse Gas Pollution Pricing Act*
- ✓ *Impact Assessment Act, 2012*
- ✓ *Income Tax Act*
- ✓ *International River Improvements Act*
- ✓ *Lac Seul Conservation Act, 1928*
- ✓ *Lake of the Woods Control Board Act, 1921*
- ✓ *Manganese-Based Fuel Additives Act*
- ✓ *Marine Liability Act*
- ✓ *Migratory Birds Convention Act, 1994*
- ✓ *National Strategy for Safe and Environmentally Sound Disposal of Lamps Containing Mercury Act*
- ✓ *National Wildlife Week Act*
- ✓ *Nunavut Planning and Project Assessment Act*
- ✓ *Perfluorooctane Sulfonate Virtual Elimination Act*
- ✓ *Resources and Technical Surveys Act*
- ✓ *Species at Risk Act*
- ✓ *Weather Modification Information Act*
- ✓ *Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act*
- ✓ *Yukon Environmental and Socio-economic Assessment Act*

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

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 2019-20 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 2019-20 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.
- ✓ The compensations for excess emissions provided for under the *Greenhouse Gas Pollution Pricing Act* are recognized upon confirmation by the registered facility that the compensation is to be provided by means of an excess emissions charge payment to Her Majesty in right of Canada.
- ✓ Other revenues are recognized in the period the event giving rise to the revenues occurred.
- ✓ Revenues that are non-respondable are not available to discharge Environment and Climate Change Canada's liabilities. While the Deputy Head is expected to maintain accounting control, he has no authority regarding the disposition of non-respondable revenues. As a result, non-respondable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

(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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(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.

(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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

(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)

	2020	2019
Net cost of operations before government funding and transfers	\$1,419,014	\$1,473,535
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (Note 11)	(40,408)	(40,463)
Net loss on disposals, write-off and adjustments to tangible capital assets	(3,185)	(4,174)
Common services provided without charge by other government departments (Note 14)	(113,784)	(104,236)
Refunds/adjustments to previous years' expenses	4,345	3,533
Decrease (increase) in accrued liabilities not charged to authorities	201,748	4,044
Decrease (increase) in vacation pay and compensatory leave	(9,109)	(2,455)
Decrease (increase) in employee future benefits (Note 8)	(711)	730
Decrease (increase) in environmental liabilities (Note 5)	7,589	(20,101)
Decrease (increase) in provision for contingent liabilities (Note 13)	(22,143)	-
Increase (decrease) in inventory (Note 10)	(1,301)	(359)
Other	280	(1,128)
Total items affecting net cost of operations but not affecting authorities	23,321	(164,609)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (Note 11)	99,141	80,495
Increase (decrease) in prepaid expenses	(90)	(257)
Salary Overpayments	3,250	3,311
Other Loans and advances to employees	190	247
Lease payments for tangible capital assets	839	794
Other	-	(161)
Total items not affecting net cost of operations but affecting authorities	103,330	84,429
Current year authorities used	\$1,545,665	\$1,393,355

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>2020</u>	<u>2019</u>
Authorities provided		
Vote 1 - Operating expenditures	\$896,857	\$837,420
Vote 5 - Capital expenditures	109,542	92,041
Vote 10 - Grants & Contributions	791,613	640,600
Vote 15 - Canada's Marine Safety Response	468	-
Vote 20 - Ensuring Better Disaster Management Preparation and Response	198	-
Vote 25 - Implementing a Federal Carbon Offset System	508	-
Statutory amounts	98,201	90,900
	<u>1,897,387</u>	<u>1,660,961</u>
Less:		
Authorities available for future years	(289)	(769)
Lapsed authorities	(351,433)	(266,837)
	<u>(351,722)</u>	<u>(267,606)</u>
Current year authorities used	<u><u>\$1,545,665</u></u>	<u><u>\$1,393,355</u></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>2020</u>	<u>2019</u>
Accounts payable - Other government departments and agencies	\$22,892	\$21,218
Accounts payable - External parties	144,506	132,209
Total accounts payable	<u>167,398</u>	<u>153,427</u>
Accrued liabilities	286,954	285,311
Total accounts payable and accrued liabilities	<u><u>\$454,352</u></u>	<u><u>\$438,738</u></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 77 sites (90 sites in 2018-19) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified approximately 16 sites (17 sites in 2018-19) where action is required and for which a gross liability of 192,277 thousand (200,922 thousand in 2018-19) 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 (9 sites in 2018-19) where a liability estimate of \$694 thousand (\$291 thousand in 2018-19) has been recorded using this model.

Moreover, there is 1 site that has not been assessed by environmental experts (1 site in 2018-19) for which the department has estimated and recorded a liability of \$13,051 thousand (\$12,398 thousand in 2018-19).

These three estimates combined, totalling \$206,022 thousand (\$213,611 thousand in 2018-19), 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 51 sites (63 sites in 2018-19), 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, 2020, and March 31, 2019. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast (CPI) rate of 2.0% (1.9% in 2018-19). 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 2020 rates range from 0.37% (1.55% in 2019) for 2 year term to 1.39% (1.96% in 2019) 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)	2020					2019				
	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⁾	32	10	55,645	56,917	-	26	10	55,446	57,830	-
Marine Facilities / Aquatic Sites ⁽³⁾	12	7	147,491	152,216	-	16	8	155,808	172,190	-
Parks and Protected Areas ⁽⁴⁾	26	7	862	869	-	32	7	383	404	-
Office / commercial / industrial operations ⁽⁵⁾	7	2	2,024	2,075	-	15	2	1,974	2,135	-
Totals	77	26	\$206,022	\$212,077	-	90	27	\$213,611	\$232,559	-

⁽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)	2020	2019
Opening balance	\$26,606	\$16,099
Amounts received		
Donations	1	1
Cost sharing project deposits	19,581	18,419
Disposal at sea permit fees	-	161
Revenue recognized	(10,715)	(8,074)
Closing balance	\$35,473	\$26,606

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 \$13,103 thousand as at March 31, 2020 (\$18,199 thousand of cost and \$12,375 thousand in accumulated amortization respectively as at March 31, 2019). 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)	2020
Maturing year	
2021	\$1,300
2022	1,300
2023	1,300
2024	1,300
2025	1,300
2026 and subsequent	2,600
Total future minimum lease payments	9,100
Less: imputed interest (5.63%)	1,747
Balance of obligation under leased tangible capital assets	\$7,353

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 2019-20 expense amounts to \$66,675 thousand (\$62,010 thousand in 2018-19). For Group 1 members, the expense represents approximately 1.01 (1.01 times in 2018-19) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2018-19) 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, 2020, 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)

	2020	2019
Accrued benefit obligation, beginning of year	\$26,555	\$27,285
Expense for the year	4,516	3,766
Benefits paid during the year	(3,805)	(4,496)
Accrued benefit obligation, end of year	\$27,266	\$26,555

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)	2020	2019
Receivables - Other government departments and agencies	\$9,189	\$4,142
Receivables - External parties	20,590	26,169
Employee advances	514	494
Subtotal	30,293	30,805
Allowance for doubtful accounts on receivables from external parties	(139)	(270)
Gross accounts receivable	30,154	30,535
Accounts receivable held on behalf of Government	(15,731)	(14,098)
Net accounts receivable	\$14,423	\$16,437

10. Inventory

The following table presents details of the inventory:

(in thousands of dollars)	2020	2019
Printed material, books, maps and forms	\$19	\$18
Stationery and office paper supplies	194	200
Meteorological supplies	16,355	16,820
Electric lighting	56	44
Compressed gases and acetylene	2	3
Chemicals and related products	5	5
Scientific & technical equipment	830	896
Radar Equipment	3,524	3,729
General purpose machinery and equipment	17	4
Computer equipment	62	88
Laboratory materials and supplies	309	308
Test vehicles	2,864	3,423
Total inventory	\$24,237	\$25,538

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)

	2019	Acquisitions	Adjustments ⁽³⁾	Disposals and Write-offs	2020
Land	\$24,316	\$636	\$52	-	\$25,004
Buildings	228,768	-	29,380	391	257,757
Works and infrastructure	37,135	-	5,949	79	43,005
Machinery and equipment	465,193	13,985	22,341	12,437	489,082
Vehicles ⁽²⁾	41,056	2,300	839	1,894	42,301
Leasehold improvements	40,199	-	-	-	40,199
Assets under construction ⁽¹⁾	188,377	82,220	(55,416)	3,420	211,761
Leased tangible capital asset - building	18,199	-	-	-	18,199
	\$1,043,243	\$99,141	\$3,145	\$18,221	\$1,127,308

Accumulated amortization

(in thousands of dollars)

	2019	Amortization	Adjustments ⁽³⁾	Disposals and Write-offs	2020
Buildings	\$153,418	\$8,538	\$265	\$390	\$161,831
Works and infrastructure	13,930	2,255	(\$1)	10	16,174
Machinery and equipment	369,500	25,518	\$1,087	10,963	385,142
Vehicles ⁽²⁾	30,588	2,133	\$657	1,836	31,542
Leasehold improvements	36,784	1,236	-	-	38,020
Leased tangible capital asset - building	12,375	728	-	-	13,103
	\$616,595	\$40,408	\$2,008	\$13,199	\$645,812

Net book value

(in thousands of dollars)

	2019	2020
Land	\$24,316	\$25,004
Buildings	75,350	95,926
Works and infrastructure	23,205	26,831
Machinery and equipment	95,693	103,940
Vehicles ⁽²⁾	10,468	10,759
Leasehold improvements	3,415	2,179
Assets under construction ⁽¹⁾	188,377	211,761
Leased tangible capital asset - building	5,824	5,096
Net Book Value	\$426,648	\$481,496

⁽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 \$55,470 thousand that were transferred to the other categories upon completion of the assets, post-capitalization and write-offs for a net book value of \$855 thousand reduced by transfers of tangible capital assets between departments with a net effect of (\$281) 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
2021	\$13,180	\$842,775	\$23,800	-	\$879,755
2022	13,180	378,039	20,149	-	411,368
2023	13,180	68,511	-	-	81,691
2024	13,180	10,684	-	-	23,864
2025	13,180	3,100	-	-	16,280
2026 and subsequent	263,602	-	-	-	263,602
Total	\$329,502	\$1,303,109	\$43,949	-	\$1,676,560

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
2021	-	-	\$14,598	-	\$14,598
2022	-	-	9,632	-	9,632
2023	-	-	-	-	-
2024	-	-	-	-	-
2025	-	-	-	-	-
2026 and subsequent	-	-	-	-	-
Total	-	-	\$24,230	-	\$24,230

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 \$0 (\$64,627 thousand in 2018-19) at March 31, 2020.

b) Contingent assets

Environment and Climate Change Canada has entered into an Agreement in Principle in 2018-19 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)	2020	2019
Accommodation	\$49,717	\$49,855
Employer's contribution to the health and dental insurance plans	62,547	52,826
Workers' compensation	826	895
Legal services	694	660
Total	\$113,784	\$104,236

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)	2020	2019
Accounts receivable	\$9,189	\$4,142
Accounts payable	22,892	21,218
Expenses	251,110	224,976
Revenues	26,458	27,720

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, Health, Fisheries and Oceans and Natural Resources with a net effect of -\$281,452 (\$77,693 in 2018-19) 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 -\$131,673 (-\$7,397 in 2018-19).

(in thousands of dollars)

	<u>2020</u>
Assets:	
Tangible capital assets (Note 11)	(\$281)
Salary overpayments and emergency salary advances	(132)
Total assets transferred	<u>(413)</u>
Adjustment to Environment and Climate Change Canada net financial position	<u><u>(\$413)</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 core responsibility. 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 for the main core responsibilities, 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	2020	2019
Operations and administration							
Salaries and employee benefits	\$70,408	\$256,074	\$132,880	\$200,078	\$186,877	\$846,317	\$764,156
Professional and special services	9,094	59,005	14,581	11,242	22,797	116,719	111,328
Accommodation	4,255	19,415	8,094	11,705	10,740	54,209	54,113
Amortization of tangible capital assets	979	19,689	3,564	9,788	6,388	40,408	40,463
Other contracted services	1,427	5,663	3,269	8,451	8,407	27,217	25,453
Materials and supplies	585	8,796	3,169	7,343	1,545	21,438	24,225
Rentals	185	1,789	4,835	6,594	14,340	27,743	30,969
Travel	2,453	8,148	7,264	9,416	2,828	30,109	34,135
Machinery & equipment	675	4,253	2,940	4,070	(922)	11,016	18,177
Net loss on disposals, write-off and adjustments to tangible capital assets	93	1,365	282	799	646	3,185	4,174
Environmental liability adjustments	-	(7,589)	-	-	-	(7,589)	20,102
Equipment repair and maintenance	96	4,137	1,381	5,561	789	11,964	10,661
Postage	102	1,113	1,076	1,082	493	3,866	3,928
Information services – communications	416	1,599	833	240	3,032	6,120	6,067
Telecommunications	40	309	390	914	2,785	4,438	2,279
Earmarked fees and levies	-	3,757	-	-	-	3,757	3,691
Contingent liabilities	-	-	-	-	22,143	22,143	-
Other	(80)	2,937	1,186	8,266	(591)	11,718	13,482
Total Operations and administration	90,728	390,460	185,744	285,549	282,297	1,234,778	1,167,403
Transfer payments							
Non-profit organizations	19,076	32,299	108,793	1,555	-	161,723	121,097
Other countries and international organization	15,055	794	3,061	4,810	-	23,720	32,738
Other levels of governments within Canada	171,717	2,549	14,451	140	-	188,857	243,836
Other to individuals	8	-	281	10	-	299	2,882
Industry	102,807	1,462	349	-	-	104,618	1,061
Total Transfer payments	308,663	37,104	126,935	6,515	-	479,217	401,614
Total Expenses	399,391	427,564	312,679	292,064	282,297	1,713,995	1,569,017
Revenues							
Sales of goods and services	-	18,509	5,737	53,576	1,184	79,006	81,328
Other revenues	46	217,055	1,333	8,126	(1,752)	224,808	23,768
Revenues earned on behalf of Government	-	(1,397)	(1,659)	(5,101)	(676)	(8,833)	(9,614)
Total Revenues	46	234,167	5,411	56,601	(1,244)	294,981	95,482
Net cost of operations	\$399,345	\$193,397	\$307,268	\$235,463	\$283,541	\$1,419,014	\$1,473,535

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

17. Restatement of 2018-19 Financial Statements

Environment and Climate Change Canada decided to review its financial reporting methods related to assets. The review noted that accounts receivable due to salary overpayments should be classified as "Financial assets held on behalf of the Government" and Goods and Services Tax (GST) as well as Quebec Sales Tax (QST) refundable advances accounts should not.

(in thousands of dollars)

	2018-19 As previously Stated	Effect of the restatement	2018-19 Restated
Statement of Financial Position			
Financial Assets held on behalf of Government	(4,472)	(9,626)	(14,098)
Total net financial assets	446,117	(9,626)	436,491
Departmental net debt	310,505	9,626	320,131
Departmental net Financial position	<u>142,501</u>	<u>(9,626)</u>	<u>132,875</u>
Statement of Operations and Departmental Net Financial Position			
Net cash provided by Government	1,155,672	(9,626)	1,146,046
Net cost (revenue) of operations after government funding and transfers	9,168	9,626	18,794
Departmental net financial position – end of the year	<u>142,501</u>	<u>(9,626)</u>	<u>132,875</u>
Statement of Change in Departmental Net Debt			
Net cost (revenue) of operations after government funding and transfers	9,168	9,626	18,794
Net increase (decrease) in departmental net debt	43,368	9,626	52,994
Departmental net debt - End of year	<u>310,505</u>	<u>9,626</u>	<u>320,131</u>
Statement of Cash Flows			
Increase (decrease) in accounts receivable and advances	(5,086)	(9,626)	(14,712)
Cash used in operating activities	1,075,347	(9,626)	1,065,721
Net cash provided by Government of Canada	<u>1,155,672</u>	<u>(9,626)</u>	<u>1,146,046</u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

18. 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 2019-20**

Environment and Climate Change Canada

**Annex to the Statement of Management Responsibility Including
Internal Control Over Financial Reporting 2019-20**

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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 Deputy Head and senior departmental management and, as applicable, the Departmental Audit Committee.

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) 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 (SSC) 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 SSC 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.

Specific Arrangements

- Agriculture and Agri-Food Canada (AAFC) provides ECCC with a System Applications Products (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.

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.

3. Departmental Assessment Results During Fiscal Year 2019-20

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

Progress during the 2019-20 fiscal year	
Previous year’s rotational ongoing monitoring plan for current year	Status
Expenditure Management - Pay Administration	Completed as planned; remedial actions started
Expenditure Management - Operating and Maintenance Expenditures	Completed as planned; remedial actions started
CFO Attestation for Cabinet Submissions	In progress, on track
Budgeting and Forecasting	In progress, on track
Investment Planning	In progress, on track
Costing	In progress, on track

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, continued to be deployed this fiscal year to enhance the control framework for the Expenditure Management (EM). Key changes made to the ECCC Pay Administration process include the implementation of a quality assurance program for monitoring the accuracy of pay transactions. In addition, the Department established enhanced quality assurance reviews on the payment verification process for Operating and Maintenance Expenditures. Finally, ECCC updated its Business Continuity Management Program for Essential Financial Functions that was ready for implementation on time to respond to the COVID-19 pandemic.

3.2 Ongoing Monitoring Program

In 2019-20, 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: EM-Pay Administration, EM-Operating and Maintenance Expenditures, Budgeting and Forecasting, Investment Planning and CFO Attestation for Cabinet Submissions.

Expenditure Management - Pay Administration

The Department reached the ongoing monitoring status for Pay Administration during 2019-20 and continues to be proactive in addressing potential pay-related issues and sharing best practices. ECCC implemented this year a quality assurance program that includes post payment verification of pay transactions and data analytics.

This year, ECCC enhanced its monitoring of Phoenix Time and Labour module and the data transferred between PSPC and ECCC for completeness and accuracy. The Department is also improving its monitoring of Human Resources Management System and Phoenix access rights, of managers’ validation of salary actuals and of authorization of pay transactions.

Expenditure Management - Operating and Maintenance Expenditures

Operating and Maintenance expenditures process include the following ICFR processes: Interdepartmental Settlement; 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 were 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.

In the next fiscal year, notably due to the COVID-19 pandemic context, ECCC will further assess the effectiveness of the Operating and Maintenance Expenditures process and implement a quality assurance program for ECCC expenditures for additional interim measures in response to the pandemic.

CFO Attestation for Cabinet Submissions

ECCC completed the design effectiveness testing of the CFO Attestation for Cabinet Submissions process in 2019-20 and enhancement of documentation of roles and responsibilities within the Treasury Board Submissions sub-process is underway.

The operating effectiveness testing was delayed to 2020-21 due to the pandemic context and will allow the Department to reach the ongoing monitoring status.

Budgeting and Forecasting, Investment Planning and Costing

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

An assessment of ECCC's Investment Planning and Costing processes is underway.

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

In 2016 and as validated through MAF 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) and ECCC is planning to reach ongoing monitoring by 2023, as per Treasury Board Secretariat expectations.

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 is based on the 2019-20 risk assessment results of ICFM processes (including ICFR processes), departmental priorities, available resources and workload, and other considerations, such as the COVID-19 pandemic context, that have an impact on the plan.

Therefore, the Department identified how the pandemic has affected the control environment and performed a top-down risk assessment of the ICFM, including ICFR, key processes, with a focus on controls that are critical. In summary, this assessment resulted in considering most components of the Expenditure Management process in addition to the Inventory process as being at higher risk due to the interim measures and processes implemented during the COVID-19 pandemic. The Department will revisit walkthroughs/design assessments and update control documentation accordingly to reflect recent changes.

Rotational ongoing monitoring plan					
Key control areas	2020-21	2021-22	2022-23	2023-24	2024-25
Entity Level Controls (ICFR)			√	√	
IT General Controls (ICFR)				√	√
Expenditure Management - Pay Administration (ICFM and ICFR)					√
Expenditure Management - Operating and Maintenance Expenditures (ICFR)	√	√			
Expenditure Management - Capital Expenditures (ICFR)			√	√	
Expenditure Management - Grants & Contributions (ICFR)			√	√	
CFO Attestation (ICFM)	√				
Budgeting and Forecasting (ICFM)	√	√			
Costing (ICFM)	√	√	√		
Investment Planning (ICFM)	√	√			
Quality Assurance on Expenditure Management (ICFM and ICFR)	√	√	√	√	√
Monitoring of Management Action Plans (ICFM and ICFR)	√	√	√	√	√

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 by participating in Government of Canada horizontal initiatives and sharing best practices.