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# Quarterly Financial Report for the quarter ended September 30, 2020 (unaudited)

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## 1. Introduction

This quarterly report has been prepared by management as required by section 65.1 of the Financial Administration Act, and in the form and manner prescribed by the Treasury Board in the Directive on Accounting Standards, GC 4400 Departmental Quarterly Financial Reports. This Quarterly Financial Report should be read in conjunction with the 2020–21 Main Estimates for the Financial Transactions and Reports Analysis Center of Canada (FINTRAC).

This Quarterly Financial Report has not been subject to an external audit or review.

### 1.1 Authority, Mandate and Program Activities

FINTRAC (the Centre) is Canada's financial intelligence unit and anti-money laundering and anti-terrorist financing regulator. The Centre assists in the detection, prevention and deterrence of money laundering and the

financing of terrorist activities. FINTRAC's financial intelligence and compliance functions are a unique contribution to the safety of Canadians and the integrity of Canada's financial system.

FINTRAC acts at arm's length and is independent from the police services, law enforcement agencies and other entities to which it is authorized to disclose financial intelligence. It reports to the Minister of Finance, who is in turn accountable to Parliament for the activities of the Centre. FINTRAC is headquartered in Ottawa, with regional offices located in Montréal, Toronto, and Vancouver.

FINTRAC was established by, and operates within the ambit of, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and its Regulations. The Centre is one of several domestic partners in Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime, which is led by the Department of Finance.

FINTRAC fulfills its mandate by engaging in the following activities:

- Receiving financial transaction reports and voluntary information in accordance with the legislation and regulations;
- Safeguarding personal information under its control;
- Ensuring compliance of reporting entities with the legislation and regulations;
- Maintaining a registry of money services businesses in Canada;
- Producing financial intelligence relevant to investigations of money laundering, terrorist activity financing and threats to the security of Canada;
- Researching and analyzing data from a variety of information sources that shed light on trends and patterns in money laundering and terrorist activity financing; and

- Enhancing public awareness and understanding of money laundering and terrorist activity financing.

In addition, FINTRAC is part of the Egmont Group, an international network of financial intelligence units that collaborate and exchange information to combat money laundering and terrorist activity financing. FINTRAC also contributes to other multilateral fora such as the Financial Action Task Force (FATF), the Asia-Pacific Group on Money Laundering (APG) and the Caribbean Financial Action Task Force (CFATF), participating in international policy making and the provision of technical assistance to other FIUs.

The description of the program activities for the Centre can be found in Part II of the [2020–21 Main Estimates](#) and in the [2020–21 Departmental Plan](#).

## **1.2 Basis of Presentation**

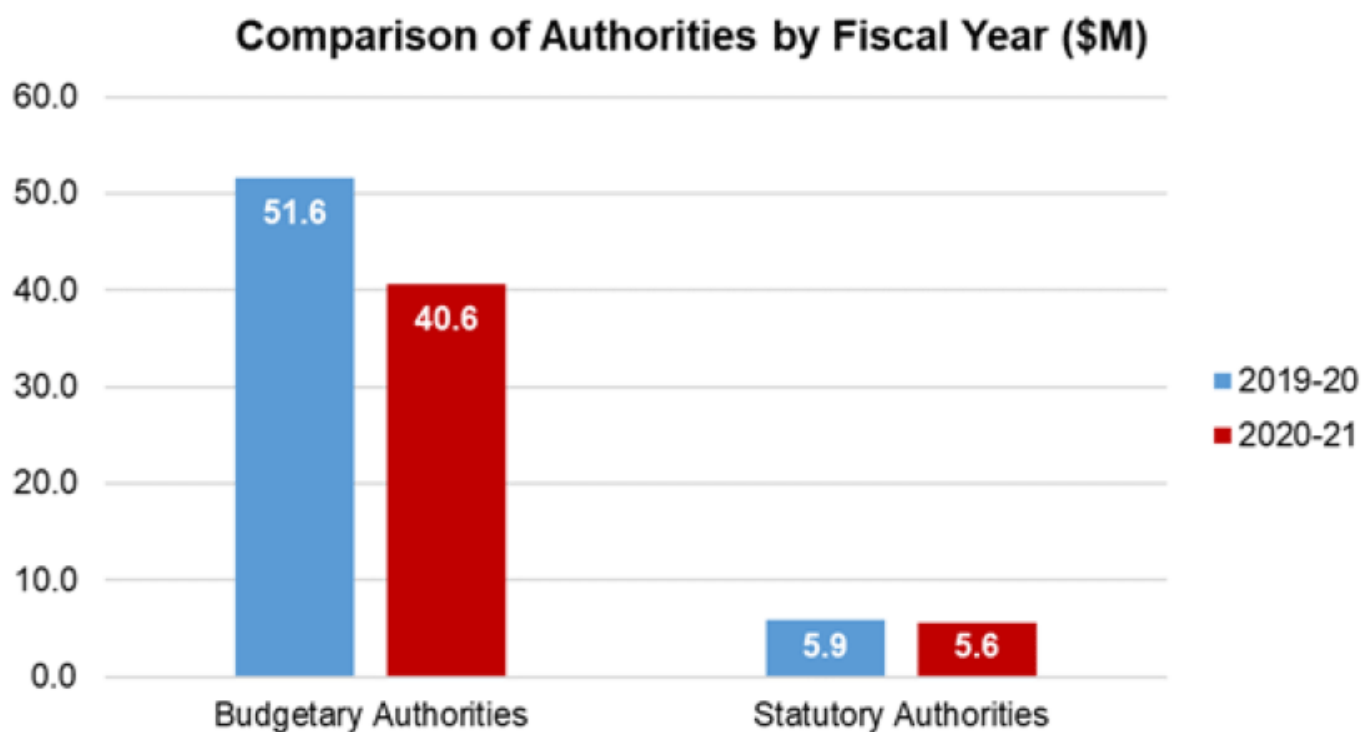
This Quarterly Financial Report has been prepared by management using an expenditure basis of accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Authorities includes the Centre's spending authorities granted by Parliament and those used by the Department, consistent with the Main Estimates and Supplementary Estimates for both fiscal years as well as transfers from Treasury Board central votes that are approved by the end of the quarter.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

FINTRAC uses the accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

## 2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This departmental Quarterly Financial Report reflects the results of the current fiscal period. The following graph provides a comparison of budgetary and statutory authorities available for the first three months of 2020–21 compared to 2019–20.



### 2.1 Authorities Analysis

The following table provides a comparison of cumulative authorities by vote for the current and previous fiscal years.

## Comparison of Cumulative Authorities Available for Use as at September 30

Authorities Available (in thousands)	2020- 21	2019- 20	Variance (\$)	Variance (%)
<b>Budgetary</b>				
<b>Voted:</b>				
<b>Vote 1 – Program Authorities</b>	40,556	51,569	-11,013	-21%
<b>Statutory</b>				
<b>Employee Benefits Program</b>	5,620	5,881	-261	-4%
<b>Total Budgetary authorities</b>	46,176	57,450	-11,274	-20%
<b>Non-budgetary</b>	0	0	0	0%
<b>Total authorities <sup>1</sup></b>	<b>\$46,176</b>	<b>\$57,450</b>	<b>-\$11,274</b>	<b>-20%</b>

### 2.1.1 Voted Budgetary Authorities

The total Vote 1 program authorities available as at September 30, 2020 are \$40.6 million compared to \$51.6 million for the same period in 2019–20.

The decrease of \$11.0 million or 21% is attributable to the following factors:

- A decrease of \$12.8 million in the authorities available for use is due to the reduced supply of the Main Estimates. Due to the COVID-19 pandemic and limited sessions in the spring for Parliament to study supply, the Standing Orders of the House of Commons were amended to extend the study period into the fall. FINTRAC received 9/12ths of

full supply at that time. FINTRAC is expected to receive full supply for the 2020–21 Main Estimates in December 2020.

- An increase of \$1.2 million based on the profile of Budget 2019 funding to strengthen Canada's anti-money laundering and anti-terrorist financing regime; and
- An increase of \$0.6 million based on the profile of the funding for FINTRAC to contribute to the national strategy to combat human trafficking.

### 2.1.2 Statutory Budgetary Authorities

The total statutory authorities available as at September 30, 2020 are \$5.6 million compared to \$5.9 million for the same period in 2019–20. The decrease of \$0.3 million or -4% relates to adjustments to the employee benefits program (EBP) funding.

## 2.2 Expenditure Analysis

The following table provides a comparison of year-to-date spending as at September 30 by vote for the current and previous fiscal years.

### Comparison of Cumulative Expenditures as at September 30

<b>Year-to-date expenditures (in thousand \$)</b>	<b>2020– 21</b>	<b>2019– 20</b>	<b>Variance (\$)</b>	<b>Variance (%)</b>
<b>Budgetary</b>				
<b>Voted:</b>				
<b>Vote 1 – Program Expenditures</b>	23,920	21,853	2,067	8.6%
<b>Statutory</b>				

<b>Employee Benefits Program</b>	2,810	2,714	96	3.4%
<b>Total Budgetary expenditures</b>	26,730	24,566	2,164	8.1%
<b>Non-budgetary</b>	0	0	0	0%
<b>Total year-to-date expenditures <sup>1</sup></b>	<b>\$26,730</b>	<b>\$24,566</b>	<b>\$2,164</b>	<b>8.1%</b>

### 2.2.1 Voted Budgetary Expenditures

Voted expenditures have increased. Total voted expenditures were \$23.9 million in 2020–21 compared to \$21.8 million in 2019–20, an increase of \$2.1 million or 8.6%. The net increase is the result of the following variances in expenditure categories:

- Personnel expenditures have increased by \$2.5 million following an increase in hiring and the implementation of an approved annual cost of living increase for 2018 and 2019.
- Professional and special service expenses have increased by \$0.4 million. Information and technology consulting services and other professional services increased, while management consulting expenses and training costs decreased. Expenditures for legal service fees also increased due to timing differences in payments.
- The acquisition of machinery and equipment has increased by \$0.3 million following a purchase of computer equipment to enable employees to work remotely during the pandemic.
- Rental expenditures have decreased by \$0.1 million due to a decrease in application software license expenses.
- Purchases, repairs and maintenance have decreased by \$0.2 million due to a timing difference in maintenance payments.

- Transportation and communications expenditures have decreased by \$0.6 million primarily because travel expenditures decreased significantly due to the ongoing pandemic.
- The remaining variance is due to small changes in expenditures for information; utilities, materials and supplies; and other subsidiaries and payments.

## **2.2.2 Statutory Budgetary Expenditures**

Statutory expenditures remained fairly stable. There was a small increase of \$0.1 million or 3.4% compared to this period last year. 2020–21 expenditures were \$2.8 million and 2019–20 expenditures were \$2.7 million. The variance is in employee benefits program expenditures.

# **3. Risks and Uncertainties**

As Canada's financial intelligence unit and a partner in Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime, FINTRAC operates in a dynamic, constantly changing environment. In seeking to identify risks and opportunities proactively, FINTRAC must anticipate and assess internal and external risk factors that can affect the design and delivery of its programs and the achievement of its strategic objectives. Additionally, FINTRAC must identify factors and risks that could adversely affect its ability to manage its resources effectively. FINTRAC maintains a Corporate Risk Profile (CRP) to identify and manage its key corporate risks. Senior level committees review the CRP regularly and the business planning process identifies activities to mitigate the risks. In 2020–21, FINTRAC will update its CRP to provide a more robust risk context, which will help the Centre to better understand how risks are mapped to strategic outcomes, the relationship between corporate risks and importantly, how risks should be mitigated and managed by the Centre on an ongoing basis.



### 3.1 Risk Factors and Mitigation

An important area of risk identified in FINTRAC's current CRP is resource management. FINTRAC places a strong focus on the effective management of both human and financial resources, especially during periods of change and transformation. As a small organization, FINTRAC faces challenges and limitations regarding its human resources capacity and its flexibility to cash manage funds. Employee engagement at all levels, along with appropriate talent and tools, is required to ensure effective resource management. As well, effective management of resources through periods of transformation is critical to ensure effective alignment of resources and to seize investment opportunities as they materialize.

FINTRAC continues to face growing operating pressures due to the increasing cost of operation and expenses related to the implementation of government-wide technology-centric investments; and, as a fully reimbursing client of Public Services and Procurement Canada (PSPC), bearing the rising cost of office accommodations, building maintenance and leasehold improvements. To date, however, the impact has been managed through the following actions and mitigation strategies:

- Managers have been asked to identify and implement opportunities for efficiencies to offset a higher cost of operations; and
- FINTRAC management has developed rigorous control and reporting mechanisms to monitor spending including, for example, additional oversight to ensure that spending for travel, conferences and hospitality remain within sustainable levels.

FINTRAC depends on a sophisticated information technology infrastructure to receive, store and secure approximately 25 million new financial transaction reports every year. At the same time, this infrastructure allows intelligence analysts to filter the information, analyze it, and generate

actionable financial intelligence for Canada's police, law enforcement and national security agencies. This is only possible with modern systems and processes that can manage the high volume of information, make the connections, and produce the needed results, all in real-time or close to it. FINTRAC continues to ensure that its business systems and processes support its ability to deliver on its mandate and to adapt to future innovations and enhancements in business requirements.

Finally, FINTRAC's IT infrastructure is a Shared Services Canada (SSC) asset. This infrastructure is aging and has an increased risk of failure, which could potentially have an impact on FINTRAC operations and security requirements. With competing priorities from various partner departments, and a strategic focus toward end-state services, SSC has limited funding available for legacy infrastructure. This places an additional pressure on the Centre (which has provided supplemental funding for essential initiatives) to effectively plan, allocate its resources and deliver on its programs. To mitigate these risks, FINTRAC will continue to implement a breadth of strategies, including: working closely with SSC and partners concerned with protecting National Security to identify potential synergies; tracking existing and potential future issues with the Centre's legacy environments; conducting weekly status meetings and monthly partnership meetings with SSC; continuing to collaborate and partner with Chief Information Officers across the Government of Canada for potential solutions; and leveraging innovative technical solutions wherever possible.

# 4. Significant Changes in Relation to Operations, Personnel and Programs

## 4.1 Key Personnel Changes

While there were no personnel changes at the executive level during the second quarter of 2020–21, the Prime Minister announced the appointment of Sarah Paquet as Director of FINTRAC on September 21, 2020. Ms. Paquet replaces the retiring Nada Semaan as Director, effective November 18, 2020.

## 4.2 Changes in Funding <sup>2</sup>

Budget 2019 directed resources (up to \$20.5M over 5 years) to FINTRAC to strengthen Canada's anti-money laundering and anti-terrorist financing regime. The funding supports the following five initiatives: the implementation of legislation and regulations package 2; Trade Based Money Laundering (TBML) analysis; disclosing to Revenue Quebec and the Competition Bureau; strengthening FINTRAC compliance outreach and examinations; and expanding FINTRAC public-private partnership projects. FINTRAC's 2020–21 funding for these initiatives is \$4.3 million (excluding \$0.5 million in EBP). This is an increase of \$1.2 million from 2019–20 authorities of \$3.1M (excluding \$0.5M in EBP).

FINTRAC also received funding to contribute to the national strategy to combat human trafficking (\$2.2 million over 5 years). 2020–21 funding for this initiative is \$0.6 million (excluding \$0.1 million in EBP).

# 5. Approval by Senior Officials

Approved by:

Sarah Paquet, Director

Date: November 24, 2020

Annette Ryan, Chief Financial Officer

Date: November 19, 2020

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**STATEMENT OF AUTHORITIES (unaudited) For the quarter ended September 30, 2020**  
**(in thousands of dollars)**

	Fiscal Year 2020-21			Fiscal Year 2019-20	
	Total available for use for the year ending March 31, 2021 <u>3</u>	Used during the quarter ended September 30, 2020	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2020	Used during the quarter ended September 30, 2019
<b>Budgetary authorities</b>					
<b>Vote 1 – Program expenditures</b>	40,556	14,011	23,920	51,569	12,030
<b>Budgetary statutory authorities</b>					
<b>Contributions to employee benefit plans</b>	5,620	1,405	2,810	5,881	1,357

<b>Total budgetary authorities</b>	46,176	15,416	26,730	57,450	13,387
<b>Non-budgetary authorities</b>	0	0	0	0	0
<b>Total authorities <sup>1</sup></b>	<b>\$46,176</b>	<b>\$15,416</b>	<b>\$26,730</b>	<b>\$57,450</b>	<b>\$13,387</b>

**DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT CLASSIFICATION**  
**For the quarter ended September 30, 2020**  
**(in thousands of dollars)**

<b>Expenditures</b>	<b>Fiscal Year 2020-21</b>			<b>Fiscal Year 2019-20</b>
	<b>Planned expenditures for the year ending March 31, 2021</b>	<b>Expended during the quarter ended September 30, 2020</b>	<b>Year-to-date used at quarter-end</b>	<b>Planned expenditures for the year ending March 31, 2020</b>
<b>Personnel</b>	44,141	11,393	21,878	41,551
<b>Transportation &amp; communications</b>	1,434	34	49	1,271
<b>Information</b>	452	99	118	399
<b>Professional &amp; special services</b>	4,094	1,067	1,277	3,327

<b>Rentals</b>	6,972	2,300	2,461	6,031
<b>Repair &amp; maintenance</b>	308	289	334	336
<b>Utilities, materials &amp; supplies</b>	437	36	121	359
<b>Acquisition of land, buildings &amp; works</b>	0	0	0	0
<b>Acquisition of machinery &amp; equipment</b>	1,091	181	472	565
<b>Transfer payments</b>	0	0	0	0
<b>Other subsidiaries &amp; payments</b>	44	17	20	3,612
<b>Total budgetary expenditures <sup>1</sup></b>	<b>\$58,973</b>	<b>\$15,416</b>	<b>\$26,730</b>	<b>\$57,450</b>



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# Footnotes

- 1 Totals may not add due to rounding.
- 2 Please note that funding announced for FINTRAC in the Economic and Fiscal Snapshot of July 8, 2020 is not reflected in this quarterly financial report, as it has not yet been received.
- 3 Includes only authorities available for use at and granted by Parliament at quarter-end.

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**Date Modified:**

2020-11-19