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Quarterly Financial Report for the quarter ended June 30, 2022 (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 2022–23 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 2022–23 Main Estimates and in the 2022–23 Departmental Plan.

1.2. Basis of Presentation

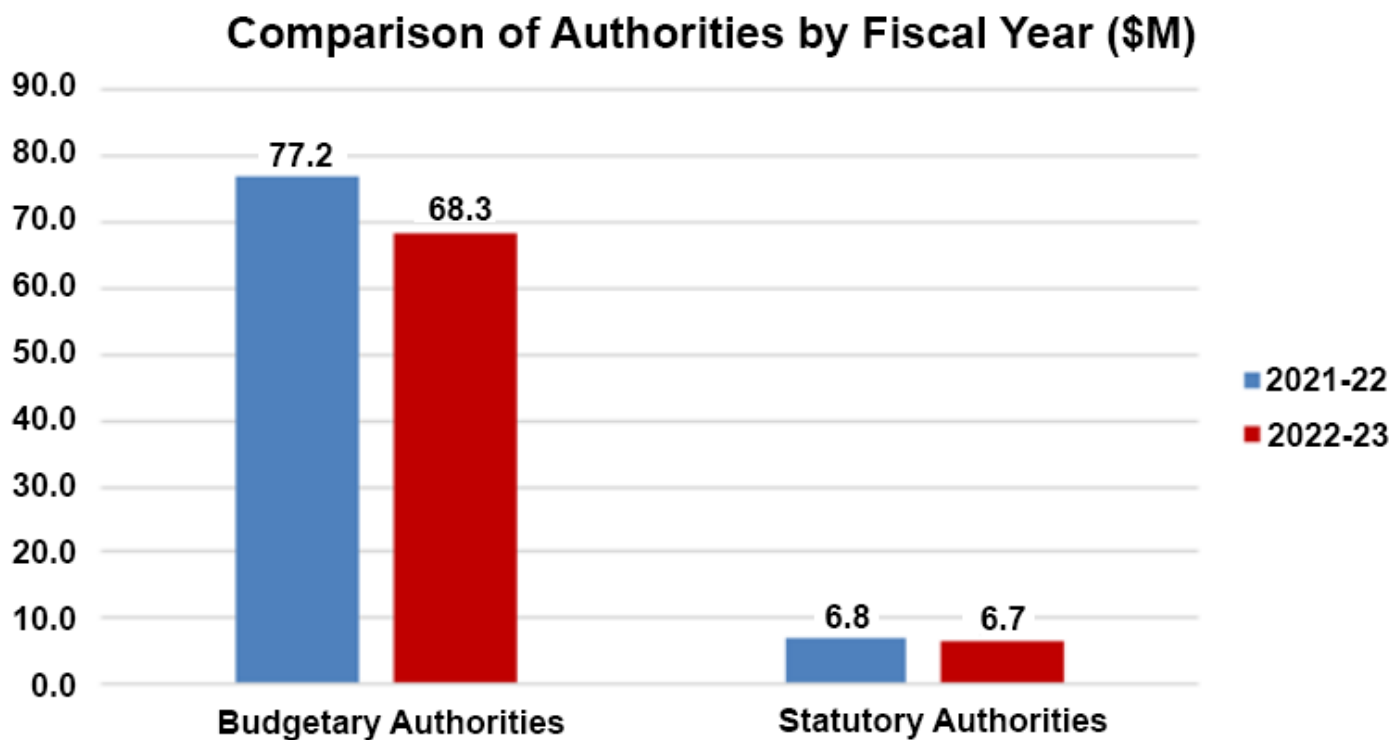
This Quarterly Financial Report has been prepared by management, using an expenditure basis of accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Authorities includes 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 on 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 2022–23 compared to 2021–22.



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 June 30

Authorities Available (\$ thousands)	2022- 23	2021- 22	Variance (\$)	Variance (%)
Budgetary				
Voted				
Vote 1 – Program Authorities	68,294	77,201	-8,907	-12%
Statutory				
Employee Benefits Plan	6,694	6,840	-146	-2%
Total Budgetary authorities	74,988	84,041	-9,053	-11%
Non-budgetary	0	0	0	0%
Total authorities ¹	\$74,988	\$84,041	-\$9,053	-11%

2.1.1. Voted Budgetary Authorities

The total Vote 1 – Program Authorities available as at June 30, 2022 are \$68.3 million compared to \$77.2 million for the same period in 2021–22. The decrease of approximately \$8.9 million or 12% is attributable to the following factors:

- A decrease of \$8.8 million based on the funding announced in the Economic and Fiscal Snapshot 2020 for fighting financial crime, relocating FINTRAC's headquarters and modernizing the cross-border currency reporting framework, inclusive of subsequent approved reprofile requests;

- A decrease of \$0.4 million based on the funding profile of initiatives announced in the Budget 2019 to strengthen Canada’s anti-money laundering and anti-terrorist financing regime, inclusive of subsequent reprofile requests;
- A decrease of \$0.2 million attributable to variances in transfers to other government departments for services provided to FINTRAC;
- An increase of \$0.4 million in funding following approved reprofile requests to support operational pressures; and
- An increase of \$0.1 million in personnel funding for an approved annual cost of living increase and other compensation funding adjustments.

2.1.2. Statutory Budgetary Authorities

The total statutory authorities available as at June 30, 2022 are \$6.7 million compared to \$6.8 million for the same period in 2021–22.

2.2. Expenditure Analysis

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

Comparison of Cumulative Expenditures as at June 30

Year-to-date expenditures (\$ thousands)	2022- 23	2021- 22	Variance (\$)	Variance (%)
Budgetary				
Voted:				
Vote 1 – Program Expenditures	14,539	11,700	2,839	24%
Statutory				

Employee Benefits Plan	1,673	1,710	-37	-2%
Total Budgetary expenditures	16,212	13,411	2,802	21%
Non-budgetary	0	0	0	0%
Total year-to-date expenditures ²	\$16,212	\$13,411	\$2,802	21%

2.2.1. Voted Budgetary Expenditures

Total voted expenditures at June 30, 2022 were \$14.5 million in 2022–23 compared to \$11.7 million in 2021–22, an increase of \$2.8 million or 24%. The net increase is the result of the following variances in expenditure categories:

- Personnel expenditures increased by \$2.0 million following an increase in hiring of employees and students, and the implementation of an approved annual cost of living increase;
- Expenditures for professional and special services increased by \$170 thousand primarily due to expenses related to information technology consulting and professional services;
- Rental costs increased by \$340 thousand following an increase in software license and maintenance fees for client and application software; and
- The remaining variance is a small increase in expenditures for information, transportation, communication, and rentals; offset by a small decrease in expenditures for the acquisition of machinery and equipment.

2.2.2. Statutory Budgetary Expenditures

Statutory expenditures in the first quarter decreased by \$37 thousand or -2%, from \$1.71 million during 2021–22 to \$1.67 million in 2022–23. This variance is due to a decrease in employer contributions to the public service pension and death benefit programs proportional to the increase in personnel expenditures for students who do not participate in these programs. This decrease was offset by a small increase in employer contributions to Employment Insurance (EI) and Canada Pension Plan (CPP) as a result of increased personnel 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. The development of the CRP is a self-assessment process to identify, validate and measure risks where action or intervention can improve results or prevent harm. Senior level committees review the CRP regularly and the business planning process identifies activities to mitigate the risks. The objective of the CRP is to create information that FINTRAC managers and decision makers can use when planning and setting priorities.

In the context of the global pandemic, there remains an increased level of risk and uncertainty related to the timing of planned initiatives and related expenditures. Due to this anomaly, year over year expenditure trends may not be as informative as in previous annual cycles.

3.1. Risk Factors and Mitigation

One area of risk identified in FINTRAC's CRP relates to the Centre's risk that legacy IM/IT hardware and software capacity will limit FINTRAC's ability to achieve its objectives. FINTRAC depends on a sophisticated information technology infrastructure to receive, store and secure over 30 million new financial transaction reports every year. FINTRAC's systems support the heavily technology-enabled Compliance Framework, allowing businesses to submit financial transaction reports, facilitating the tracking and recording of compliance, and enabling businesses to meet their legislative and regulatory obligations. 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 that can manage the high volume of information, make the connections and produce the needed results, all in real-time or close to it.

To address the risks related to legacy IM/IT hardware and software capacity, the Centre is engaged in a broad multi-year modernization effort underpinned by its long-term Digital Strategy. With the support of significant new funding in Budget 2022, the Centre is focused on upgrading its information technology systems in order to keep pace with the rapid technological innovation taking place in the financial sector and all sectors around the world. FINTRAC's Digital Strategy is focused on ensuring the organization is able to leverage new and emerging technology, add

business value, improve performance, enhance digital services, enrich the user experience and explore modern new ways to deliver on the Centre's mandate.

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

4.1. Key Personnel Changes

There were no key personnel changes at the executive level during the first quarter of FY 2022–23.

4.2. Changes in Funding

Budget 2019 directed resources (up to \$20.5 million over 5 years) to FINTRAC to strengthen Canada's anti-money laundering and anti-terrorist financing regime. The funding supports the following five initiatives:

1. the implementation of legislation and regulations package 2;
2. trade based money laundering (TBML) analysis;
3. disclosures to Revenue Quebec and the Competition Bureau;
4. strengthening FINTRAC compliance outreach and examinations; and
5. expanding FINTRAC public-private partnership projects.

FINTRAC's 2022–23 funding for these initiatives is \$4.2 million (excluding \$0.5 million in EBP). This reflects approved reprofile requests.

In 2019–20 FINTRAC received funding in an off-cycle funding announcement to contribute to the national strategy to combat human trafficking (\$2.2 million over 5 years). 2022–23 funding for this initiative is \$0.5 million (excluding \$0.1 million in EBP). This reflects approved reprofile requests.

The Economic and Fiscal Snapshot of July 8, 2020 announced funding for FINTRAC (up to \$130.5 million over 5 years) for fighting financial crime, relocating FINTRAC's headquarters and modernizing the cross-border currency reporting framework. FINTRAC's 2022–23 funding for these initiatives is \$13.6 million (excluding \$1.2 million in EBP). This reflects approved reprofile requests.

5. Approval by Senior Officials

Approved by:

Jessica Kaluski, Chief Financial Officer (CFO)

Date: August 26, 2022

Donna Achimov, Acting Director and Chief Executive Officer (CEO)

Date: August 26, 2022

STATEMENT OF AUTHORITIES (unaudited) For the quarter ended June 30, 2022 (in thousands of dollars)

	Fiscal Year 2022–23			Fiscal Year 2021–22		
	Total available for use for the year ending March 31, 2023 <u>3</u>	Used during the quarter ended June 30, 2022	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2022 <u>4</u>	Used during the quarter ended June 30, 2021	Year date used quar end

Budgetary authorities						
Vote 1 – Program expenditures	68,294	14,539	14,539	77,201	11,700	11
Budgetary statutory authorities						
Contributions to employee benefit plans	6,694	1,673	1,673	6,840	1,710	1
Total budgetary authorities	74,988	16,212	16,212	84,041	13,411	13
Non- budgetary authorities	0	0	0	0	0	
Total authorities ⁵	\$74,988	\$16,212	\$16,212	\$84,041	\$13,411	\$13

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT CLASSIFICATION
For the quarter ended June 30, 2022
(in thousands of dollars)

Expenditures	Fiscal Year 2022-23			Fiscal Year 2021	
	Planned expenditures for the year ending March 31, 2023	Expended during the quarter ended June 30, 2022	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2022 ⁶	
Personnel	45,451	13,724	13,724	53,060	
Transportation & communications	964	74	74	1,701	
Information	418	269	269	427	
Professional & special services	10,137	926	926	17,525	
Rentals	6,744	883	883	5,876	
Repair & maintenance	527	223	223	826	
Utilities, materials & supplies	258	62	62	380	
Acquisition of land, buildings & works	0	0	0	1,229	
Acquisition of machinery & equipment	3,781	49	49	2,978	

Transfer payments	0	0	0	40
Other subsidiaries & payments	14	2	2	0
Total budgetary expenditures ⁷	\$68,294	\$16,212	\$16,212	\$80,041

Footnotes

1 Totals may not add due to rounding. ▶

2 Totals may not add due to rounding.

3 Includes only authorities available for use at and granted by Parliament at quarter-end.

4 Includes only authorities available for use at and granted by Parliament at quarter-end.

5 Totals may not add due to rounding.

6 Includes only authorities available for use and granted by Parliament at quarter-end.

7 Totals may not add due to rounding.

Date Modified:

2022-08-29