



Environment and
Climate Change Canada

Environnement et
Changement climatique Canada

DEPARTMENTAL FINANCIAL STATEMENTS (unaudited)

2022-2023



Canada 

Statement of Management Responsibility Including Internal Control over Financial Reporting 2022-23

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2023, 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 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, 2023, 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 reviews and provides advice on the financial statements to the Deputy Minister.

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

Lawrence Hanson
Acting Deputy Minister

Gatineau, Canada
Date:

Linda Drainville, CPA, CFF, CFE
Chief Financial Officer

Gatineau, Canada
Date:

Statement of Financial Position (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

As at March 31

(in thousands of dollars)

	2023	2022
		Restated (note 18)
Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$733,245	\$643,132
Vacation pay and compensatory leave	57,408	60,649
Deferred revenue (Note 6)	46,563	45,880
Lease obligation for tangible capital assets (Note 7)	4,543	5,532
Employee future benefits (Note 8)	18,663	20,764
Environmental liabilities and asset retirement obligations (Note 5)	197,547	190,385
Provision for contingent liabilities (Note 14)	22,292	22,592
Other liabilities	15,211	9,830
Total net liabilities	1,095,472	998,764
Financial assets		
Due from Consolidated Revenue Fund	715,373	623,022
Accounts receivable and advances (Note 9)	52,420	38,575
Total gross financial assets	767,793	661,597
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(36,534)	(17,743)
Total net financial assets	731,259	643,854
DEPARTMENTAL NET DEBT	364,213	354,910
Non-financial assets		
Prepaid expenses	18,465	20,553
Inventory (Note 10)	27,125	25,309
Tangible capital assets (Note 11)	607,989	568,548
Total non-financial assets	653,579	614,410
DEPARTMENTAL NET FINANCIAL POSITION (Note 12)	\$289,366	\$259,500

Contractual obligations and contractual rights (Note 13)

Contingent liabilities and contingent assets (Note 14)

The accompanying notes form an integral part of these financial statements

Lawrence Hanson
Acting Deputy Minister

Gatineau, Canada
Date:

Linda Drainville, CPA, CFF, CFE
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)		
	2023	2023	2022
			Restated (note 18)
Expenses			
Taking Action on Clean Growth and Climate Change	\$472,452	\$417,663	\$367,841
Preventing and Managing Pollution	452,644	469,656	425,471
Conserving Nature	624,508	598,104	428,274
Predicting Weather and Environmental Conditions	296,078	301,466	298,444
Internal services	246,907	319,796	282,353
Total expenses	2,092,589	2,106,685	1,802,383
Revenues			
Sales of goods and services	72,707	73,327	68,758
Other revenues	290,172	445,104	265,175
Revenues earned on behalf of Government	(261,433)	(311,898)	(244,726)
Total revenues	101,446	206,533	89,207
Net cost of operations before government funding and transfers	1,991,143	1,900,152	1,713,176
Government funding and transfers			
Net cash provided by Government		1,713,829	1,691,353
Change in due from Consolidated Revenue Fund		92,351	(3,015)
Services provided without charge by other government departments (Note 15)		123,726	116,196
Transfer of tangible capital assets from (to) other government departments (Note 16)		(111)	(298)
Transfer of salary overpayments and emergency salary advances from (to) other government departments (Note 16)		227	291
Net cost of operations after government funding and transfers		(29,866)	(91,351)
Departmental net financial position - Beginning of year		259,500	168,149
Departmental net financial position - End of year		\$289,366	\$259,500

Segmented information (Note 17)

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>2023</u>	<u>2022</u>
		Restated (note 18)
Net cost of operations after government funding and transfers	(\$29,866)	(\$91,351)
Change due to tangible capital assets		
Acquisition of tangible capital assets (Note 11)	80,798	93,207
Amortization of tangible capital assets (Note 11)	(41,589)	(40,167)
Proceeds from disposal of tangible capital assets	(1,030)	(834)
Net loss on disposals, write-off and adjustments to tangible capital assets	1,373	(1,715)
Transfer from (to) other government departments (Note 16)	(111)	(298)
Total change due to tangible capital assets	39,441	50,193
Change due to inventories (Note 10)	1,816	1,347
Change due to prepaid expenses	(2,088)	1,913
Net increase (decrease) in departmental net debt	9,303	(37,898)
Departmental net debt - Beginning of year	354,910	392,808
Departmental net debt - End of year	\$364,213	\$354,910

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)

	2023	2022
		Restated (note 18)
OPERATING ACTIVITIES		
Net cost of operations before government funding and transfers	\$1,900,152	\$1,713,176
Non-cash items:		
Services provided without charge by other government departments (Note 15)	(123,726)	(116,196)
Amortization of tangible capital assets (Note 11)	(41,589)	(40,167)
Net loss on disposals, write-off and adjustments to tangible capital assets	1,373	(1,715)
Variations in Statement of Financial Position:		
Decrease (increase) in accounts payable and accrued liabilities (Note 4)	(90,113)	9,814
Decrease (increase) in vacation pay and compensatory leave	3,241	6,003
Decrease (increase) in deferred revenue (Note 6)	(683)	(2,890)
Decrease (increase) in employee future benefits (Note 8)	2,101	3,075
Decrease (increase) in environmental liabilities and asset retirement obligations (Note 5)	(7,162)	20,816
Decrease (increase) in provision for contingent liabilities (Note 14)	300	(213)
Decrease (increase) in other liabilities	(5,381)	(8,386)
Increase (decrease) in accounts receivable and advances (Note 9)	(4,946)	11,759
Increase (decrease) in prepaid expenses	(2,088)	1,913
Increase (decrease) in inventory (Note 10)	1,816	1,347
Transfer of salary overpayments and emergency salary advances (from) to other government departments (Note 16)	(227)	(291)
Cash used in operating activities	1,633,072	1,598,045
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets (Note 11)	80,798	93,207
Proceeds from disposal of tangible capital assets	(1,030)	(834)
Cash used in capital investing activities	79,768	92,373
FINANCING ACTIVITIES		
Lease payments for tangible capital assets	989	935
Cash used in financing activities	989	935
NET CASH PROVIDED BY GOVERNMENT OF CANADA	\$1,713,829	\$1,691,353

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 Net-Zero Emissions Accountability Act*

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

1. Authority and objectives (continued)

- ✓ *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act*
- ✓ *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*
- ✓ *Canada Oil and Gas Operations Act*
- ✓ *Canada Water Act*
- ✓ *Canada Wildlife Act*
- ✓ *Canadian Environment Week Act*
- ✓ *Canadian Environmental 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*
- ✓ *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 2022-23 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 2022-23 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 and the 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 compensation 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.
- ✓ Other revenues are recognized in the period the event giving rise to the revenues occurred.
- ✓ Revenues that are non-respendable are not available to discharge Environment and Climate Change Canada's liabilities. While the Deputy Head is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

(e) Expenses

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

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 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 and asset retirement obligations

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 management's best estimate of the amount required to remediate the sites to the current minimum environmental standard for its use prior to contamination.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

2. Summary of significant accounting policies (continued)

An asset retirement obligation is recognized when all of the following criteria are satisfied: there is a legal obligation to incur retirement costs in relation to a tangible capital asset, the past event or transaction giving rise to the retirement liability has occurred, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. The costs to retire an asset are normally capitalized and amortized over the asset's estimated remaining useful life. An asset retirement obligation may arise in connection with a tangible capital asset that is not recognized or no longer in productive use. In this case, the asset retirement cost would be expensed. The measurement of the liability is the government's best estimate of the amount required to retire a tangible capital asset.

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, as required, for present value adjustments, inflation, new obligations, changes in management estimates and actual costs incurred.

(l) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenues, and expenses reported in the financial statements and accompanying notes at March 31. The estimates are based on facts and circumstances, historical experience, general economic conditions and reflect the Government's best estimate of the related amount at the end of the reporting period. The most significant items where estimates are used are contingent liabilities, environmental liabilities and asset retirement obligations, 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.

(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)	2023	2022
Net cost of operations before government funding and transfers	\$1,900,152	\$1,713,176
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (Note 11)	(41,589)	(40,167)
Net loss on disposals, write-off and adjustments to tangible capital assets	1,373	(1,715)
Common services provided without charge by other government departments (Note 15)	(123,726)	(116,196)
Refunds/adjustments to previous years' expenses	11,892	21,071
Timing differences between revenues earned and collected	3,021	3,779
Increase (decrease) in consolidated specified purpose accounts (Note 12)	87,002	52,317
Decrease (increase) in accrued liabilities not charged to authorities	214	4,622
Increase (decrease) in accrued revenues not charged to authorities	11,211	(53,186)
Decrease (increase) in vacation pay and compensatory leave	3,241	6,003
Decrease (increase) in employee future benefits (Note 8)	2,101	3,075
Decrease (increase) in environmental liabilities and asset retirement obligation (Note 5)	(7,162)	20,815
Decrease (increase) in provision for contingent liabilities (Note 14)	300	(213)
Other	(787)	7
Total items affecting net cost of operations but not affecting authorities	(52,909)	(99,787)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (Note 11)	80,798	93,207
Transition payments for implementing salary payments in arrear	4	-
Increase (decrease) in inventory (Note 10)	1,816	1,347
Increase (decrease) in prepaid expenses	(2,088)	1,913
Salary overpayments	888	2,059
Other loans and advances to employees	32	39
Lease payments for tangible capital assets	989	935
Total items not affecting net cost of operations but affecting authorities	82,439	99,500
Current year authorities used	\$1,929,682	\$1,712,889

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>2023</u>	<u>2022</u>
Authorities provided		
Vote 1 - Operating expenditures	\$1,100,991	\$1,011,253
Vote 5 - Capital expenditures	147,052	128,427
Vote 10 - Grants & Contributions	865,562	785,575
Statutory amounts	124,645	102,664
	2,238,250	2,027,919
Less:		
Authorities available for future years	(1,107)	(972)
Lapsed authorities	(307,461)	(314,058)
	(308,568)	(315,030)
Current year authorities used	\$1,929,682	\$1,712,889

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>2023</u>	<u>2022</u>
Accounts payable - Other government departments and agencies	\$16,420	\$21,232
Accounts payable - External parties	166,734	166,550
Total accounts payable	183,154	187,782
Accrued liabilities	550,091	455,350
Total accounts payable and accrued liabilities	\$733,245	\$643,132

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Environmental liabilities and asset retirement obligations

Environmental liabilities and asset retirement obligations include:

(in thousands of dollars)	2023	2022
Remediation liability for contaminated sites	\$185,668	\$178,441
Asset retirement obligations	11,879	11,944
Total environmental liabilities and asset retirement obligations	\$197,547	\$190,385

(a) Remediation of contaminated sites

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 260 sites (253 sites in 2021-22) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified approximately 81 sites (72 sites in 2021-22) where action is required and for which a gross liability of \$184,100 thousand (\$163,650 thousand in 2021-22) 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 45 unassessed sites (40 sites in 2021-22) where a liability estimate of \$1,568 thousand (\$1,218 thousand in 2021-22) has been recorded using this model.

In 2021-22, there was one site that had been assessed by environmental experts for which the department had estimated and recorded a liability of \$13,573 thousand. This site is now included in the 81 sites requiring actions.

These estimates combined, totalling \$185,668 thousand (\$178,441 thousand in 2021-22), 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 134 sites (140 sites in 2021-22), 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, 2023, and March 31, 2022. 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% (2.0% in 2021-22). 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 2023 rates range from 3.64% (2.24% in 2022) for 2 year term to 3.01% (2.38% in 2022) for a 30 or greater year term.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Environmental liabilities and asset retirement obligations (continued)

Nature and Source (in thousands of dollars)	2023				2022			
	Number of Sites	Number of sites with a liability	Estimated Liability	Estimated Total Undiscounted Expenditures	Number of Sites	Number of sites with a liability	Estimated Liability	Estimated Total Undiscounted Expenditures
Military and Former Military Sites ⁽¹⁾	1	-	-	-	1	-	-	-
Fuel Related Practices ⁽²⁾	19	8	91,360	101,984	20	9	64,079	68,015
Marine Facilities / Aquatic Sites ⁽³⁾	207	107	87,618	96,646	194	94	109,952	119,000
Parks and Protected Areas ⁽⁴⁾	21	8	3,458	3,731	26	7	1,305	1,343
Office / commercial / industrial operations ⁽⁵⁾	12	3	3,232	3,496	12	3	3,105	3,247
Totals	260	126	\$185,668	\$205,857	253	113	\$178,441	\$191,605

⁽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.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

5. Environmental liabilities and asset retirement obligations (continued)

(b) Asset Retirement Obligations

The Department has recorded asset retirement obligations for the removal of asbestos and other hazardous materials in buildings, closure and post-closure obligations associated with other works and infrastructure, retirement activities linked to machinery and equipment, and other asset retirement obligations.

The changes in asset retirement obligations during the year are as follows:

(in thousands of dollars)	2023					2022
	Asbestos and other hazardous material in buildings	Closure and post-closure obligations - other works and infrastructure	Retirement activities - machinery and equipment	Underground storage tanks	Total	Restated (note 18)
Opening balance	\$6,305	\$253	\$5,143	\$243	\$11,944	\$11,570
Liabilities incurred	-	-	183	-	183	89
Liabilities settled	-	-	-	-	-	-
Revision in estimate	(280)	(13)	(239)	(11)	(543)	-
Accretion expense ⁽¹⁾	155	6	128	6	295	285
Closing balance	\$6,180	\$246	\$5,215	\$238	\$11,879	\$11,944

⁽¹⁾ Accretion expense is the increase in the carrying amount of an asset retirement obligation due to the passage of time.

The undiscounted future expenditures, adjusted for inflation, for the planned projects comprising the liability are \$11,879 thousands (\$11,944 thousand as at March 31, 2022).

Key assumptions used in determining the provision are as follows:

(in thousands of dollars)	2023	2022
Discount rate	2.89 - 3.02%	2.35 - 2.45%
Discount period and timing settlement	10 to 28 years	10 to 28 years
Long-term rate of inflation	2.00%	2.00%

The Department's ongoing efforts to assess contaminated sites and asset retirement obligations may result in additional environmental liabilities and asset retirement obligations.

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)	2023	2022
Opening balance	\$45,880	\$42,990
Amounts received		
Donations	1	1
Cost sharing project deposits	6,255	11,563
Disposal at sea permit fees	-	82
Revenue recognized	(5,573)	(8,756)
Closing balance	\$46,563	\$45,880

7. Lease obligation for tangible capital assets

Environment and Climate Change Canada has entered into agreements to lease certain space and equipment under capital leases with a cost of \$18,199 thousand and accumulated amortization of \$15,286 thousand as at March 31, 2023 (\$18,199 thousand of cost and \$14,558 thousand in accumulated amortization respectively as at March 31, 2022). 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 2027.

(in thousands of dollars)	2023
Maturing year	
2024	\$1,300
2025	1,300
2026	1,300
2027	1,300
Total future minimum lease payments	5,200
Less: imputed interest (5.63%)	657
Balance of obligation under leased tangible capital assets	\$4,543

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 2022-23 expense amounts to \$72,047 thousand (\$68,344 thousand in 2021-22). For Group 1 members, the expense represents approximately 1.02 times (1.01 times in 2021-22) the employee contributions and, for Group 2 members, approximately 1.00 time (1.00 time in 2021-22) 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, 2023, 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)	2023	2022
Accrued benefit obligation, beginning of year	\$20,764	\$23,839
Adjustment for the year	(319)	(354)
Benefits paid during the year	(1,782)	(2,721)
Accrued benefit obligation, end of year	\$18,663	\$20,764

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)	2023	2022
Receivables - Other government departments and agencies	\$4,290	\$5,141
Receivables - External parties	48,989	33,272
Employee advances	564	492
Subtotal	53,843	38,905
Allowance for doubtful accounts on receivables from external parties	(1,423)	(330)
Gross accounts receivable	52,420	38,575
Accounts receivable held on behalf of Government	(36,534)	(17,743)
Net accounts receivable	\$15,886	\$20,832

The following table provides an aging analysis of accounts receivable from external parties and the associated valuation allowances used to reflect their net recoverable value.

(in thousands of dollars)	2023	2022
Accounts receivable from external parties		
Not past due	\$44,904	\$32,894
Number of days past due		
1 to 30	1,611	46
31 to 60	27	83
61 to 90	927	33
91 to 365	1,395	95
Over 365	125	121
Sub-total	48,989	33,272
Less: Valuation allowance	(1,423)	(330)
Total	\$47,566	\$32,942

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

10. Inventory

The following table presents details of the inventory:

(in thousands of dollars)	2023	2022
Printed material, books, maps and forms	\$18	\$18
Stationery and office paper supplies	194	196
Meteorological supplies	18,841	17,456
Electric lighting	38	44
Compressed gases and acetylene	6	3
Chemicals and related products	6	6
Scientific & technical equipment	881	889
Radar Equipment	4,228	4,229
General purpose machinery and equipment	10	4
Computer equipment	70	60
Laboratory materials and supplies	327	315
Test vehicles	2,506	2,089
Total inventory	\$27,125	\$25,309

Inventory is valued using the moving average price.

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	3 to 30 years
Informatics Hardware	3 to 10 years
Informatics Software	3 to 9 years
Other Equipment	5 to 10 years
Ships and Boats	10 to 15 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)

	2022	Acquisitions	Adjustments ⁽³⁾	Disposals	Write-offs	2023
Land	\$25,734	\$117	\$7	-	-	\$25,858
Buildings	277,425	-	3,522	34	-	280,913
Works and infrastructure	46,171	-	9,476	-	133	55,514
Machinery and equipment	590,130	11,504	69,443	8,749	815	661,513
Vehicles ⁽²⁾	47,197	3,316	(242)	1,787	169	48,315
Leasehold improvements	20,907	-	1,425	-	-	22,332
Assets under construction ⁽¹⁾	235,495	65,861	(78,572)	-	148	222,636
Leased tangible capital asset - building	18,199	-	-	-	-	18,199
	\$1,261,258	\$80,798	\$5,059	\$10,570	\$1,265	\$1,335,280

Accumulated amortization

(in thousands of dollars)

	2022	Amortization	Adjustments ⁽³⁾	Disposals	Write-offs	2023
Buildings	\$178,917	\$7,034	\$730	\$34	-	\$186,647
Works and infrastructure	20,070	2,262	3,769	-	28	26,073
Machinery and equipment	428,885	28,840	45	8,687	803	448,280
Vehicles ⁽²⁾	33,781	2,217	(176)	1,677	147	33,998
Leasehold improvements	16,499	508	-	-	-	17,007
Leased tangible capital asset - building	14,558	728	-	-	-	15,286
	\$692,710	\$41,589	\$4,368	\$10,398	\$978	\$727,291

Net book value

(in thousands of dollars)

	2022	2023
Land	\$25,734	\$25,858
Buildings	98,508	94,266
Works and infrastructure	26,101	29,441
Machinery and equipment	161,245	213,233
Vehicles ⁽²⁾	13,416	14,317
Leasehold improvements	4,408	5,325
Assets under construction ⁽¹⁾	235,495	222,636
Leased tangible capital asset - building	3,641	2,913
Net Book Value	\$568,548	\$607,989

⁽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 (\$78,572) thousand that were transferred to the other categories upon completion of the assets and post-capitalization for a net book value of \$692 thousand.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

12. Departmental net financial position

A portion of Environment and Climate Change Canada's net financial position is restricted for specific purposes. Related revenues and expenses are included in the Statement of Operations and Departmental Net Financial Position. Environment and Climate Change Canada has two accounts which fall under this category:

a) The Environmental Damages Fund account was established for the management of court orders/awards or other financial compensation to the Department for damages to the environment.

b) The Deposits - Other than Environmental Damages Fund account was established for the management of court orders/awards or other financial compensation to the Department that are not under the legal authority of the Environmental Damages Fund.

(in thousands of dollars)	<u>2023</u>	<u>2022</u>
Environmental Damages Fund		
Balance - Beginning of year - Restricted	\$281,874	\$229,592
Revenues	7,518	70,309
Expenses	(25,594)	(18,027)
Balance - End of year - Restricted	263,798	281,874
Deposits - Other than Environmental Damages Fund		
Balance - Beginning of year - Restricted	543	508
Revenues	105,078	36
Expenses	-	(1)
Balance - End of year - Restricted	105,621	543
Total Balance - End of year - Restricted	369,419	282,417
Unrestricted	(80,053)	(22,917)
Departmental net financial position - End of year	\$289,366	\$259,500

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

13. 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
2024	\$18,000	\$489,495	\$13,960	-	\$521,455
2025	18,000	278,771	-	-	296,771
2026	18,000	182,937	-	-	200,937
2027	18,000	37,150	-	-	55,150
2028	18,000	6,000	-	-	24,000
2029 and subsequent	288,000	-	-	-	288,000
Total	\$378,000	\$994,353	\$13,960	-	\$1,386,313

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
2024	-	-	\$13,223	-	\$13,223
2025	-	-	13,448	-	13,448
2026	-	-	13,677	-	13,677
2027	-	-	12,277	-	12,277
2028	-	-	-	-	-
2029 and subsequent	-	-	-	-	-
Total	-	-	\$52,625	-	\$52,625

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

14. Contingent liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown.

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 remain nil at March 31, 2023.

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

15. 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)	2023	2022
Accommodation	\$52,657	\$46,797
Employer's contribution to the health and dental insurance plans	69,632	67,884
Workers' compensation	606	704
Legal services	831	811
Total	\$123,726	\$116,196

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)	2023	2022
Accounts receivable	\$4,290	\$5,141
Accounts payable	16,420	21,232
Expenses	254,716	216,066
Revenues	26,977	28,803

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

16. Transfers from/to other government departments

During the year, Environment and Climate Change Canada transferred tangible capital assets with Parks Canada Agency, Fisheries and Oceans, as well as Public Services and Procurement Canada with a net effect of \$110,947 (\$298,268 in 2021-22) on the departmental net financial position affecting categories under vehicles, machinery and equipment and land. Environment and Climate Change Canada also transferred salary overpayments and emergency salary advances with a net effect of -\$226,621 (-\$290,622 in 2021-22).

(in thousands of dollars)	<u>2023</u>
Assets:	
Tangible capital assets (Note 11)	\$111
Salary overpayments and emergency salary advances	(227)
Total assets transferred	<u>(116)</u>
Adjustment to Departmental net financial position	<u><u>(\$116)</u></u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

17. 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	2023	2022
Operations and administration							
Personnel	\$109,421	\$263,884	\$176,628	\$207,111	\$206,676	\$963,720	\$889,936
Professional and special services	16,837	57,586	40,440	20,813	43,705	179,381	147,689
Accommodation	6,111	18,211	10,029	13,610	12,340	60,301	53,487
Amortization of tangible capital assets	860	15,067	4,379	16,792	4,491	41,589	40,167
Materials and supplies	430	8,649	4,301	5,492	592	19,464	15,966
Rentals	573	2,866	6,395	7,814	23,298	40,946	34,471
Transportation and communications	3,497	7,268	10,043	9,271	6,004	36,083	17,598
Acquisition of machinery, equipment, land, buildings and works	556	5,091	5,351	4,058	12,295	27,351	16,799
Environmental liability and Asset Retirement Obligations adjustments	-	7,227	-	-	(65)	7,162	(20,816)
Repair and maintenance	68	4,723	1,341	5,429	1,146	12,707	10,518
Information	876	1,645	20,745	187	7,908	31,361	12,066
Earmarked fees and levies	-	25,594	-	-	-	25,594	18,028
Contingent liabilities	-	-	-	-	(300)	(300)	214
Other subsidies and payments	20	2,833	1,708	7,110	1,706	13,377	12,699
Total Operations and administration	139,249	420,644	281,360	297,687	319,796	1,458,736	1,248,822
Transfer payments							
Non-profit organizations	55,366	45,328	259,700	3,250	-	363,644	282,821
Other countries and international organization:	30,397	629	3,758	471	-	35,255	24,806
Other levels of governments within Canada	163,446	1,981	52,442	40	-	217,909	237,262
Other to individuals	-	-	369	18	-	387	301
Industry	29,205	1,074	475	-	-	30,754	8,371
Total Transfer payments	278,414	49,012	316,744	3,779	-	647,949	553,561
Total Expenses	417,663	469,656	598,104	301,466	319,796	2,106,685	1,802,383
Revenues							
Sales of goods and services	-	13,921	5,655	52,922	829	73,327	68,758
Other revenues	301,784	133,942	932	8,353	93	445,104	265,175
Revenues earned on behalf of Government	(301,699)	(1,647)	(1,535)	(6,652)	(365)	(311,898)	(244,726)
Total Revenues	85	146,216	5,052	54,623	557	206,533	89,207
Net cost of operations	\$417,578	\$323,440	\$593,052	\$246,843	\$319,239	\$1,900,152	\$1,713,176

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

18. Adjustment to prior year's results

The new Asset Retirement Obligations accounting standard became effective April 1, 2022. Accordingly, the department is required to recognize the costs associated with the retirement of a tangible capital asset on acquisition, construction, or development, and to expense those costs over the life of the asset, as opposed to recognizing these expenses at the time of retirement. This change has been applied retroactively and comparative information for 2021-2022 has been restated. The effect of this adjustment is presented in the table below.

(in thousands of dollars)

	2021-22 As previously Stated	Effect of the adjustment	2021-22 Restated
Statement of Financial Position			
Environmental liabilities and Asset Retirement Obligations	\$178,441	\$11,944	\$190,385
Total net liabilities	986,820	11,944	998,764
Departmental net debt	342,966	11,944	354,910
Tangible capital assets	566,477	2,071	568,548
Non-financial assets	612,339	2,071	614,410
Departmental net financial position	<u>269,373</u>	<u>(9,873)</u>	<u>259,500</u>
Statement of Operations and Departmental Net Financial Position			
Total expenses	\$1,801,920	\$463	\$1,802,383
Net cost of operations before government funding and transfers	1,712,713	463	1,713,176
Net cost of operations after government funding and transfers	(91,814)	463	(91,351)
Departmental net financial position – Beginning of year	<u>177,559</u>	<u>(9,410)</u>	<u>168,149</u>
Departmental net financial position – End of year	<u>269,373</u>	<u>(9,873)</u>	<u>259,500</u>
Statement of Change in Departmental Net Debt			
Net cost of operations after government funding and transfers	(\$91,814)	\$463	(\$91,351)
Amortization of tangible capital assets	(39,989)	(178)	(40,167)
Net loss on disposals, write-off and adjustments to tangible capital assets	(1,804)	89	(1,715)
Total change due to tangible capital assets	50,282	(89)	50,193
Net decrease in departmental net debt	<u>(38,272)</u>	<u>374</u>	<u>(37,898)</u>
Departmental net debt - Beginning of year	<u>381,238</u>	<u>11,570</u>	<u>392,808</u>
Departmental net debt - End of year	<u>342,966</u>	<u>11,944</u>	<u>354,910</u>
Statement of Cash Flows			
Net cost of operations before government funding and transfers	\$1,712,713	\$463	\$1,713,176
Amortization of tangible capital assets	(39,989)	(178)	(40,167)
Net loss on disposals, write-off and adjustments to tangible capital assets	(1,804)	89	(1,715)
Decrease (increase) in environmental liabilities and Asset Retirement Obligation	21,190	(374)	20,816
Net cash provided by Government of Canada	<u>1,691,353</u>	<u>-</u>	<u>1,691,353</u>

Notes to the Financial Statements (Unaudited)

ENVIRONMENT AND CLIMATE CHANGE CANADA

19. 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 2022-23

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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) 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 Minister, 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 departmental managers for control management in their areas of responsibility;
- A values and ethics code;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control;
- An internal financial attestation process in support of certification by the Deputy Minister and the Chief Financial Officer, whereby senior departmental managers who report to the Deputy Minister attest that they have implemented and maintained a risk-based system of internal control over financial management in their areas of responsibility;
- A Fraud Risk Management program that is designed to protect the departments' resources from fraud, waste and abuse through a prevention and detection framework; 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 Minister and senior departmental management and, as applicable, the Departmental Audit Committee.

The Departmental Audit Committee provides advice to the Deputy Minister on the adequacy and functioning of the department's risk management, control and governance frameworks 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. PSPC also administers the Receiver General Central Systems used to issue cheques on behalf of the department. 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 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 2022-23

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

Progress during the 2022-23 fiscal year	
Previous year’s rotational ongoing monitoring plan for current year	Status
Entity Level Controls (ICFR)	In progress, on track
IT General Controls (ICFR)	In progress, on track
Inventory (ICFR)	Postponed to 2024-25
Stewardship of Financial Management Systems (ICFR)	(NEW) 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

As the Department has established a hybrid work model (employees work location is shared between their home and Government work locations), strategies were revised around Financial Management with a focus on resuming normal activities while keeping a modernized and strengthened delivery model and effective financial services. Inherent risks were considered in the decision to continue to use some established methods after the pandemic.

As part of the risk mitigation strategy and as a best practice, risks and key controls continued to be assessed at ECCC by:

- Evaluating changes in governance, risk management and internal controls, including those related to resource allocation and financial management in times of budgetary uncertainty, to delegation of authority and to reporting structure;
- Reviewing the adequacy of oversight procedures established over the impacted areas for enhanced monitoring. As such, the ICFM Framework applied by ECCC including an update to the ICFR framework, in alignment with the Integrated Risk Management Framework at ECCC,

the Treasury Board *Policy on Financial Management* and with other government departments practices;

- Remaining vigilant of the potential financial fraud vulnerabilities in the hybrid model, including relaxation of monetary limits, remote access to financial systems and potential threats for cyber vulnerabilities;
- Documenting and communicating the results of the assessment of processes and controls and supporting business process owners and senior management in addressing them.
- Updating ECCC Fraud Risk Assessment (FRA) and strengthening fraud detection controls based on the scenarios identified; and
- Providing close support to the financial systems team for a fit-gap assessment on the alignment with the Office of the Comptroller General of Canada (OCG) lead Digital Comptrollership Program to support the new Directive on the Stewardship of Financial Management Systems.

3.2 Ongoing Monitoring Program

In 2022-23, the rotational ongoing monitoring plan of ICFM (including ICFR) at ECCC was performed by assessing the following ICFR business processes: Entity Level Controls, IT General Controls and Stewardship of FMS.

Entity Level Controls (ELC)

The assessment of the Entity Level Controls (ELC) is underway and will be completed in 2023-24 as per the previous years' rotational ongoing monitoring plan. The existing documentation was reviewed to identify whether changes to the process have occurred and if any control updates need to be made.

IT General Controls (ITGC)

An ongoing monitoring assessment of the ITGC process was completed by AAFC (host department) with the support of an external consulting firm. The results were communicated to each Department cluster member and no actions plans were created as part of the operating effectiveness testing.

Inventory

The assessment of Inventory process has been postponed to 2024-25 so that the Department could prioritize the Documentation of the new Stewardship of Financial Management Systems process.

Stewardship of Financial Management Systems

The documentation phase of the Stewardship of Financial Management Systems was completed with the support of an external consulting firm. The design effectiveness of this process is planned for 2023-24.

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

In 2016, ECCC business processes related to ICFR reached the ongoing monitoring status. Subsequently, a risk-based ongoing monitoring program was implemented, and an annual risk-based assessment is conducted to monitor the effectiveness of its ICFR.

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

- Using a risk-based approach;
- 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 2022-23 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.

In summary, this fiscal year's risk-based assessment resulted in continuing to consider components related to Inventory and Capital Assets as being at higher risk due to the interim measures and processes implemented during the COVID-19 pandemic. Since the Department operates in a hybrid work model, the Real Property and the Travel, Hospitality, Conferences and Events (THCE) processes are also considered higher risk due to the related workplace transformation and to the lifting of restrictions related to travel and gatherings. The Department will continue to prioritize and realign its ICFM (including ICFR) assessments to assist the organization in effectively navigating through the post-pandemic environment.

ICFR Rotational ongoing monitoring plan					
Key control areas	2023-24	2024-25	2025-26	2026-27	2027-28
Entity Level Controls (ICFR)	Yes	No	No	No	No
IT General Controls (ICFR)	Yes	Yes	Yes	Yes	Yes
Stewardship of Financial Management Systems (ICFR)	Yes	Yes	No	No	Yes
Real Property (ICFR)	Yes	No	No	Yes	No
Inventory (ICFR)	No	Yes	No	No	Yes
Capital Assets (ICFR)	No	Yes	No	No	Yes
Grants and Contributions (Transfer Payments) (ICFR)	No	No	Yes	No	No
Public Money and Receivables (ICFR)	No	Yes	No	No	No
Financial Close and Reporting (ICFR)	No	Yes	No	No	No
Travel, Hospitality, Conferences and Events (ICFR)	Yes	No	No	No	Yes
Delegation of Financial Authorities (ICFR)	No	No	Yes	No	No
Purchasing, Payables and Payments (ICFR)	No	No	No	Yes	No