
Employment and Social
Development Canada

Emploi et Développement
social Canada

Employment and Social Development Canada

**Consolidated Financial Statements (*Unaudited*)
for the year ended March 31, 2020**

Consolidated Financial Statements (Unaudited) for the year ended March 31, 2020.

It is available upon request in multiple formats (large print, MP3, braille, e-text, DAISY), by contacting 1 800 O-Canada (1-800-622-6232). By teletypewriter (TTY), call 1-800-926-9105.

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PDF

Cat. No.: Em1-23E-PDF

ISSN: 2816-5357

Employment and Social Development Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2020, and all information contained in these statements rests with the management of Employment and Social Development Canada (ESDC). These consolidated financial statements have been prepared by management using the Government'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 consolidated financial statements. Some of the information in the consolidated 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 ESDC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in ESDC's *Departmental Results Report (DRR)*, is consistent with these consolidated 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 consolidated 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 ESDC 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, 2020 was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of ESDC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of ESDC's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the Deputy Minister.

The consolidated financial statements of ESDC have not been audited.

Original signed by

Mark Perlman, CPA, CMA
Chief Financial Officer
Employment and Social Development Canada

Gatineau, Canada
October 2, 2020

Original signed by

Graham Flack
Deputy Minister
Employment and Social Development Canada

Employment and Social Development Canada
Consolidated Statement of Financial Position (*Unaudited*)
As at March 31

	2020	2019
	(in thousands of dollars)	
Financial assets		
Due from (to) Consolidated Revenue Fund	4,119,071	(639,225)
Accounts receivable and advances (note 4)	4,677,040	5,405,380
Loans receivable (note 5)	17,993,061	17,387,541
Total gross financial assets	26,789,172	22,153,696
Financial assets held on behalf of Government		
Loans receivable (note 5)	(170,904)	(204,724)
Total net financial assets	26,618,268	21,948,972
Liabilities		
Due to Canada Pension Plan (note 6)	278,626	163,237
Accounts payable and accrued liabilities (note 7)	8,746,998	2,199,113
Vacation pay and compensatory leave	99,252	75,896
Designated Amount Fund - Trust Account (note 8)	15,368	18,437
Government Annuities Account (note 9)	114,761	122,943
Employee future benefits (note 10)	78,965	72,945
Total net liabilities	9,333,970	2,652,571
Departmental net financial asset	17,284,298	19,296,401
Non-financial assets		
Prepaid expenses	10,490	8,012
Tangible capital assets (note 11)	290,566	246,429
Total non-financial assets	301,056	254,441
Departmental net financial position (note 12)	17,585,354	19,550,842

Contractual obligations and contractual rights (note 14)

Contingent liabilities (note 15)

The accompanying notes are an integral part of these consolidated financial statements.

Original signed by

Mark Perlman, CPA, CMA
Chief Financial Officer
Employment and Social Development Canada

Gatineau, Canada
October 2, 2020

Original signed by

Graham Flack
Deputy Minister
Employment and Social Development Canada

Employment and Social Development Canada
Consolidated Statement of Operations and Departmental Net
Financial Position (*Unaudited*)
For the year ended March 31

	2020	2020	2019
	Planned Results	(in thousands of dollars)	
Expenses			
Pensions and Benefits	57,366,189	57,346,352	54,408,586
Learning, Skills Development and Employment	28,444,097	34,553,235	26,180,166
Internal Services	842,227	981,220	865,412
Social Development	774,351	931,956	727,519
Information Delivery and Services for Other Departments	228,227	241,224	211,112
Working Conditions and Workplace Relations	150,549	170,839	181,844
Expenses incurred on behalf of the Government	(45,591)	(41,531)	(43,438)
Total expenses	87,760,049	94,183,295	82,531,201
Revenues			
Employment Insurance (note 12)	22,732,900	22,713,657	22,781,644
Interest on loans receivable	938,097	762,184	855,042
Recovery of CPP administration costs	296,273	423,306	373,772
Recovery of Other Government Department service delivery costs	176,482	196,749	169,392
Other	51,773	70,579	82,919
Revenues earned on behalf of Government	(1,011,220)	(1,061,460)	(977,934)
Total revenues	23,184,305	23,105,015	23,284,835
Net cost of operations before government funding and transfers	64,575,744	71,078,280	59,246,366
Government funding and transfers			
Net cash provided by Government of Canada		64,279,776	60,751,215
Change in due from the Consolidated Revenue Fund		4,758,296	(61,371)
Services provided without charge by other government departments (note 16)		75,664	61,932
Transfer of the transition payments for implementing salary payments in arrears		(11)	(4)
Transfer of assets from (to) other government departments		(933)	255
Net (cost) revenue of operations after government funding and transfers		(1,965,488)	1,505,661
Departmental net financial position - beginning of year		19,550,842	18,045,181
Departmental net financial position - end of year		17,585,354	19,550,842

Segmented information (note 17)

The accompanying notes are an integral part of these consolidated financial statements.

Employment and Social Development Canada
Consolidated Statement of Change in Departmental Net Financial
Assets (*Unaudited*)
For the year ended March 31

	2020	2019
	(in thousands of dollars)	
Net (cost) revenue of operations after government funding and transfers	(1,965,488)	1,505,661
Change due to tangible capital assets		
Acquisition of tangible capital assets	(98,366)	(90,261)
Amortization of tangible capital assets	53,435	70,331
Proceeds from disposal of tangible capital assets	40	65
Net loss on disposal of tangible capital assets including adjustments	798	48
Transfer from other government departments	(44)	-
Total change due to tangible capital assets	(44,137)	(19,817)
Change due to prepaid expenses	(2,478)	(4,954)
Net increase (decrease) in departmental net financial assets	(2,012,103)	1,480,890
Departmental net financial assets - beginning of year	19,296,401	17,815,511
Departmental net financial assets - end of year	17,284,298	19,296,401

The accompanying notes are an integral part of these consolidated financial statements.

Employment and Social Development Canada
Consolidated Statement of Cash Flows (*Unaudited*)
For the year ended March 31

	2020	2019
	(in thousands of dollars)	
Operating activities		
Net cost of operations before government funding and transfers	71,078,280	59,246,366
Non-cash items:		
Amortization of tangible capital assets (note 11)	(53,435)	(70,331)
Net loss on disposal of tangible capital assets including adjustments	(798)	(48)
Services provided without charge by other government departments (note 16)	(75,664)	(61,932)
Transition payments for implementing salary payments in arrears	11	4
Transfer of net financial assets and liabilities to or from other government departments	977	(255)
Variations in Consolidated Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	(728,340)	451,389
Increase in loans receivable	639,340	1,163,581
Increase in prepaid expenses	2,478	4,954
Increase in due to Canada Pension Plan	(115,389)	(131,373)
Increase in accounts payable and accrued liabilities	(6,547,885)	(26,486)
Decrease (increase) in vacation pay and compensatory leave	(23,356)	4,430
Decrease in the designated amount fund - Trust Account	3,069	64,541
Decrease in Government Annuities Account	8,182	11,703
Decrease (increase) in employee future benefits	(6,020)	4,476
Cash used in operating activities	64,181,450	60,661,019
Capital investing activities		
Acquisitions of tangible capital assets (note 11)	98,366	90,261
Proceeds from disposal of tangible capital assets	(40)	(65)
Cash used in capital investing activities	98,326	90,196
Net cash provided by Government of Canada	64,279,776	60,751,215

The accompanying notes are an integral part of these consolidated financial statements.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

1. Authority and objectives

Employment and Social Development Canada (ESDC) is a Department in the core public administration. ESDC is a department named in Schedule I of the Financial Administration Act and reports to Parliament through the Ministers responsible for Employment and Social Development (ESD).

The legislative mandate of ESDC is to improve the standard of living and quality of life of all Canadians by promoting a highly skilled and mobile workforce and an efficient and inclusive labour market, as well as to promote social well-being and income security.

Acts and Regulations for which ESDC Ministers are responsible include the: *Department of Employment and Social Development Act, Old Age Security Act, Employment Insurance Act, Canada Pension Plan, Canada Student Financial Assistance Act, Canada Student Loans Act, Universal Child Care Benefit Act, Canada Disability Savings Act, Canada Education Savings Act, Labour Adjustment Benefits Act, Government Annuities Act, Government Annuities Improvement Act, Civil Service Insurance Act, Public Pensions Reporting Act, Apprentice Loans Act, Federal-Provincial Fiscal Arrangements Act, Canada Labour Code, Government Employees Compensation Act, Canada Emergency Response Benefit Act* and, where applicable, related Regulations.

Employment and Social Development Canada achieves its objectives under five core responsibilities:

Social Development

To increase inclusion and opportunities for Canadians to participate in their communities.

Pensions and Benefits

Assist Canadians in maintaining income for retirement, and provide financial benefits to survivors, people with disabilities and their families.

Learning, Skills Development and Employment

Help Canadians access post-secondary education and get the skills and training they need to participate in a changing labour market, as well as provide support to those who are temporarily unemployed.

On March 25 2020, Bill C-13, an Act respecting certain measures in response to COVID-19, received Royal Assent. Part 2 enacted the *Canada Emergency Response Benefit Act* to authorize the income support payments to workers who suffer a loss of income for reasons related to the COVID-19. The department is reporting expenses for the Canada Emergency Response Benefit (CERB) as part of its Learning, Skills Development and Employment core responsibility. The current year includes presentation of management's best estimate of the benefits for the period of March 15 to March 31st, 2020.

Working Conditions and Workplace Relations

Promotes safe, healthy, fair and inclusive working conditions and cooperative workplace relations.

Information Delivery and Services for Other Departments

Provides information to the public on the programs of the Government of Canada, and provides services on behalf of government departments and other partners.

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

Internal Services

Internal Services are those groups of related activities and resources that the federal government considers to be services in support of programs and/or required to meet corporate obligations of an organization. Internal Services refers to the activities and resources of the 10 distinct services that support program delivery in the organization, regardless of the Internal Services delivery model in a department. These services are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Management Services; Materiel Management Services; and Acquisition Management Services.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

2. Summary of significant accounting policies

These consolidated financial statements have been prepared using ESDC'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 – ESDC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to ESDC 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 Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated 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 Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the Consolidated Future-oriented Statement of Operations included in the *2019-2020 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 Financial Asset because these amounts were not included in the *2019-2020 Departmental Plan*.

(b) Consolidation – These consolidated financial statements include the transactions of the Employment Insurance Operating (EIO) Account, a consolidated specified purpose account which includes revenues credited and expenses charged under the *Employment Insurance Act* and for which the Deputy Minister as Chairperson of the Canada Employment Insurance Commission is accountable. The accounts of the EIO Account have been consolidated with those of ESDC, and all inter-organizational balances and transactions have been eliminated.

The Canada Pension Plan (CPP) is excluded from ESDC's reporting entity because changes to the CPP require the agreement of two thirds of the provinces and it is therefore not controlled by the Deputy Minister.

ESDC has received dividends on behalf of the Government of Canada from the Canada Mortgage and Housing Corporation (CMHC). As per the Government of Canada Accounting Handbook, these dividends are not recorded in ESDC's consolidated financial statements as they do not relate to ESDC's activities. ESDC is simply acting as a flow-through mechanism for administrative purposes in order to enable the Government of Canada to receive the dividends.

(c) Net cash provided by Government – ESDC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by ESDC is deposited to the CRF, and all cash disbursements made by ESDC 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.

(d) Amounts due to or from CRF – These amounts 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 ESDC is entitled to draw from the CRF without further authorities to discharge its liabilities.

(e) Revenues – Revenues are recorded on an accrual basis of accounting:

- Employment Insurance (EI) premiums are recognized as revenue in the period in which they are earned, when workers, through their employment, generate these premiums and the related employer's contribution. Premiums earned in the period are measured from amounts assessed by the Canada Revenue Agency (CRA) and from estimates of amounts not assessed. Premium revenue also includes adjustments between actual and estimated premiums of previous years.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

- Interest revenues on loans receivable are recognized in the year they are earned. Interest revenues are not recorded on impaired loans.
- Recoveries of CPP administration costs are recognized based on the services provided in the year.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Revenues that are non-respendable are not available to discharge ESDC's liabilities. While the Deputy Minister 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.

(f) Expenses – Expenses are recorded on an accrual basis of accounting:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program. In situations where payments do not form part of an existing program, transfer payments are recorded as expenses when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements. Transfer payments that become repayable as a result of conditions specified in the contribution agreement that have come into being are recorded as a reduction to transfer payment expense and as a receivable.
- 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 employer contributions to the health and dental insurance plans and legal services are recorded as operating expenses at their estimated cost.
- The expenses incurred on behalf of Government are linked to the assets held on behalf of Government. As a result, these expenses are considered to be incurred on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross expenses.

(g) Employee future benefits:

- *Pension benefits:* Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. ESDC's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. ESDC'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.

(h) Accounts receivable and advances – Accounts receivable and advances are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for accounts receivable where recovery is considered uncertain.

(i) Loans receivable – Canada Student Loans (CSL) and Canada Apprentice Loans (CAL) are recorded at original cost less reimbursements, forgiveness, write-offs and valuation allowances. The allowances for bad debts and Repayment Assistance Plan (RAP) for direct loans of CSL and for CAL are calculated based on rates determined according to an actuarial estimate and as per historical collection rates for guaranteed and risk-shared loans of CSL.

(j) Contingent liabilities – Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

(k) Tangible capital assets – All tangible capital assets having an initial cost of \$10,000 or more are recorded at their acquisition cost. ESDC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, museum collections, and immovable assets located on reserves as defined in the *Indian Act*.

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
Machinery and equipment	5 years
Computer hardware	5 years
Computer software	3 years - Purchased 5 years - Developed in-house
Other equipment and furniture	5 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement 10 years - Service delivery space 15 years - Office space

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

(l) 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:

- Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount.

(m) Measurement uncertainty – The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the determination of part of the EI premiums, the allowances for doubtful accounts, the OAS and EI benefit repayments, the liability for employee future benefits, the recovery of CPP administration costs, the accrued liabilities, the useful life of tangible capital assets, the liability of the Government Annuities Account, the estimated overpayments and underpayments of benefits disclosed in note 13 and the contingent liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the consolidated financial statements in the year they become known.

The COVID-19 pandemic has led to additional measurement uncertainty in the preparation of these financial statements given the declining economic situation that prevailed after year end. The full potential impact of the COVID-19 outbreak is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. ESDC expects that the estimates and assumptions used in the preparation of these financial statements will continue to be affected for the near term.

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

3. Parliamentary authorities

ESDC receives most of its funding through annual parliamentary authorities. Items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and the Consolidated Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Furthermore, as a consolidated specified purpose account, the EI Operating Account expenses and revenues recognized in ESDC's Consolidated Statement of Operations and Departmental Net Financial Position do not affect parliamentary authorities. Accordingly, ESDC 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:

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

(a) Reconciliation of net cost of operations to current year authorities used

	2020	2019
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	71,078,280	59,246,366
Adjustments for items affecting net cost of operations but not affecting authorities:		
Bad debt expense (excluding EI bad debts)	(463,441)	(169,419)
Refund of programs and prior years' expenditures	131,283	94,552
Revenue not available for spending	119,230	116,208
Allowance expense for the Repayment Assistance Plan program of Canada Student Loans	(217,010)	(259,074)
Amortization of tangible capital assets (note 11)	(53,435)	(70,331)
Decrease (increase) in employee future benefits	(6,020)	4,476
Net EIO Account transactions (note 12)	(1,011,120)	1,964,289
Increase in accounts payable and accrued liabilities not charged to authorities	(64,446)	(71,124)
Services provided without charge by other government departments (note 16)	(75,664)	(61,932)
Other adjustments	(50,390)	(472)
Total items affecting net cost of operations but not affecting authorities	(1,691,013)	1,547,173
Adjustments for items not affecting net cost of operations but affecting authorities:		
Net Canada Student Loans disbursed	933,967	1,246,841
Net Canada Apprentice Loans disbursed	33,520	39,388
Canada Student Loans debt write-offs	179,127	162,154
Acquisition of tangible capital assets (note 11)	98,366	90,261
Canada Student Loans forgiveness	117,893	99,912
Transition payments for implementing salary payments in arrears	11	4
Other adjustments	46,100	57,029
Total items not affecting net cost of operations but affecting authorities	1,408,984	1,695,589
Current year authorities used	70,796,251	62,489,128

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

(b) Authorities provided and used

	2020	2019
	(in thousands of dollars)	
Authorities provided:		
Vote 1 - Operating expenditures	951,276	791,337
Vote 5 - Grants and contributions	3,045,652	2,606,474
Vote 90b - Debt write-offs	180,432	163,501
Statutory amounts	66,729,126	59,127,487
Less:		
Authorities available for future years	(1,026)	(1,040)
Lapsed authorities:		
Operating expenditures	(42,500)	(22,996)
Grants and contributions	(65,383)	(174,288)
Debt write-offs	(1,305)	(1,347)
Statutory amounts	(21)	-
Current year authorities used	70,796,251	62,489,128

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

4. Accounts receivable and advances

The following table presents details of ESDC's accounts receivable and advances balances:

	2020	2019
	(in thousands of dollars)	
Receivables - Other government departments and agencies		
EI premiums receivable from CRA	1,341,830	2,120,052
EI and OAS benefit repayments receivable from CRA	2,263,765	2,329,279
Other	118,127	55,517
	3,723,722	4,504,848
Receivables and advances - External parties		
EI and OAS overpayments and penalties to be recovered	1,336,681	1,243,198
Other	410,593	373,827
	1,747,274	1,617,025
Subtotal accounts receivable and advances	5,470,996	6,121,873
Allowance for doubtful accounts on receivables from external parties	(793,956)	(716,493)
Net accounts receivable and advances	4,677,040	5,405,380

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

5. Loans receivable

	Student Loans	Apprentice Loans	2020 Total	2019 Total
(in thousands of dollars)				
Loans receivable				
Gross loans - beginning of year	21,163,874	237,256	21,401,130	20,157,407
New loans and repurchases	3,621,594	54,823	3,676,417	3,712,832
Reimbursements	(2,391,240)	(21,303)	(2,412,543)	(2,184,801)
Loan write-offs and forgiveness	(313,401)	-	(313,401)	(284,308)
Gross loans - end of year	22,080,827	270,776	22,351,603	21,401,130
Unamortized discount	(33,247)	-	(33,247)	(44,792)
Allowance for bad debts	(4,472,277)	(20,413)	(4,492,690)	(4,167,365)
Net loans	17,575,303	250,363	17,825,666	17,188,973
Accrued interest				
Gross accrued interest - beginning of year	511,308	1,809	513,117	452,749
New interest	652,987	2,810	655,797	782,362
Reimbursements	(419,688)	(2,983)	(422,671)	(429,158)
Interest write-offs and forgiveness	(263,254)	(87)	(263,341)	(292,836)
Gross accrued interest - end of year	481,353	1,549	482,902	513,117
Unamortized discount	(13,685)	-	(13,685)	(13,449)
Allowance for bad debts	(301,806)	(16)	(301,822)	(301,100)
Net accrued interest	165,862	1,533	167,395	198,568
Total net loans and net accrued interest	17,741,165	251,896	17,993,061	17,387,541
Loans and accrued interest held on behalf of Government	(169,371)	(1,533)	(170,904)	(204,724)
Total Loans receivable	17,571,794	250,363	17,822,157	17,182,817

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

The breakdown of the gross loans is as follows:

	Student Loans	Apprentice Loans	2020 Total	2019 Total
	(in thousands of dollars)			
Loans in good standing	21,669,238	270,776	21,940,014	21,015,840
Impaired Loans	411,589	-	411,589	385,290
Gross Loans	22,080,827	270,776	22,351,603	21,401,130

Canada Student Loans

The Canada Student loans consist of three different types of loans, Direct Loans, Guaranteed Loans and Risk-Shared Loans. Since August 1, 2000, Canada Student Loans are issued under the Direct Loan Regime. Before this date, the loans were issued under the Guaranteed Loan Regime (1964-1995) or under the Risk-Shared Loan Regime (1995-2000). Direct Loans issued on or after August 1, 2000 are administered under the authority of section 6.1 of the *Canada Student Financial Assistance Act*, which authorizes the Minister of Employment, Workforce Development and Labour to enter into loan agreements directly with any qualifying students. Guaranteed Loans provided by financial institutions between 1964 and August 1995, under the *Canada Student Loans Act*, are fully guaranteed by ESDC to the lenders. Risk-shared Loans issued prior to August 1, 2000 and on or after August 1, 1995 are amounts related to student loans subrogated to the Crown under the authority of the *Canada Student Financial Assistance Act*.

An allowance is recorded to provide for bad debts and Repayment Assistance Plan (RAP) for Canada Student Loans. The allowance for Direct Loans is determined according to an actuarial estimate provided by the Office of the Superintendent of Financial Institutions (Chief Actuary). Based on projected defaulted loans and recovery rates, the Chief Actuary establishes the allowance rates to be applied to the outstanding balances of the portfolio according to the status of the loans. For the year ended March 31, 2020, the bad debt and RAP allowance rates on Direct Loans were established as follows:

Status of the loans	Allowance rate as at March 31, 2020	Allowance rate as at March 31, 2019
Bad debt allowance		
Loans in-study	6.8%	7.1%
Loans in-repayment	4.6%	3.5%
Loans in-default	77.5%	76.5%
RAP allowance		
Loans in-study	5.3%	5.2%
Loans in-repayment	1.4%	1.9%
Loans in RAP	27.8%	23.8%

Source: Actuarial Report on the Canadian Student Loan Program, as at July 31, 2019.

The total amount of direct loans issued under the authority of the *Canada Student Financial Assistance Act* and outstanding risk-shared loans bought-back by ESDC may not exceed \$34 billion. The total amount of direct loans and outstanding risk-shared loans as at March 31, 2020 amounted to \$22,023.7 million (\$21,097.0 million in 2019).

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

Canada Apprentice Loans

Canada Apprentice Loans (CAL) are administrated under the authority of section 4 of the *Apprentice Loans Act* which came into effect on January 2, 2015. The Minister of Employment, Workforce Development and Labour is authorized to enter into a loan agreement directly with any eligible apprentice.

An allowance is recorded to provide for CAL bad debts and Repayment Assistance Plan (RAP). The allowance is determined according to an actuarial estimate provided by the Chief Actuary. Based on projected defaulted loans and recovery rate, the Chief Actuary establishes the allowance rates to be applied to the outstanding balances of the portfolio according to the status of the loans. For the year ended March 31, 2020, the bad debt allowance rate was established at 4.9% (5.1% in 2019) and the RAP allowance rate was established at 2.7% (3.0% in 2019), resulting in an allowance of \$20.4 million (\$19.1 million in 2019).

The total amount of CAL issued under the authority of *Apprentice Loans Act* may not exceed \$1.5 billion. The total amount of outstanding apprentice loans as at March 31, 2020 amounted to \$270.8 million (\$237.2 million in 2019).

Interest and repayment terms

Under these two programs, no security is received from the borrowers and the loans bear interest at either a floating rate (prime rate) or a fixed rate (prime rate + 2.0%). Borrowers are not required to pay interest on their loans while they are still studying or enrolled in their apprentice program.

Borrowers having difficulty repaying their loans may be eligible for assistance under the Repayment Assistance Plan. The typical repayment period is 10 years, with a maximum period of 15 years for borrowers that are eligible if their affordable payment, which is based on family income and family size, is less than their required monthly payment. Depending on their regime, borrowers may also benefit from another type of loan forgiveness program in the event of severe permanent disability or death.

When ESDC no longer has reasonable assurance of recovering the full amount of a loan at the expected date, the loan becomes impaired. Interest revenue is not recorded on impaired loans. Loans that are considered impaired are eventually subject to the write-off process. Subsequent recoveries on these loans are recorded as a reduction of the expense in the consolidated statement of operations and departmental net financial position. For the year ended March 31, 2020, the total bad debt expense on loans receivable amounted to \$408.2 million (\$137.3 million in 2019).

To support borrowers during the COVID-19 pandemic the Government of Canada suspended repayments of Canada Student Loans and Canada Apprentice Loans for the period of March 30, 2020 to September 30, 2020. During this time, no interest will accrue on these loans.

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

6. Due to Canada Pension Plan

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965. The CPP is administered by the Government of Canada and the participating provinces; therefore, it is excluded from ESDC's reporting entity.

In accordance with the *Canada Pension Plan*, the financial activities of the CPP are recorded in the CPP Account. CPP's revenues and expenses, such as contributions, interests, investment income or loss from the CPP Investment Board, pension benefits and operating expenses, are reported as increases and decreases to the liability and are reported separately in the CPP consolidated financial statements. The CPP Account also records the amounts transferred to or received from the CPP Investment Board.

	2020	2019
	(in thousands of dollars)	
Due to Canada Pension Plan - beginning of year	163,237	31,864
Receipts and other credits	89,387,170	81,061,038
Payments and other charges	(89,271,781)	(80,929,665)
Due to Canada Pension Plan - end of year	\$ 278,626	\$ 163,237

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

7. Accounts payable and accrued liabilities

The following table presents details of ESDC's accounts payable and accrued liabilities:

	2020	2019
	(in thousands of dollars)	
Accounts payable - Other government departments and agencies		
Income taxes payable to CRA	35,426	27,832
Universal Child Care Benefits payable to CRA	88,266	103,159
Other	452,239	306,214
	575,931	437,205
Accounts payable - External parties		
EI benefits payable to individuals	2,509,903	784,384
OAS and Guaranteed Income Supplement benefits payable to individuals	47,210	78,339
Emergency care and support benefits payable to individuals	4,739,209	-
Other	251,808	354,139
	7,548,130	1,216,862
Accrued liabilities	239,896	218,579
Allowance for alternative payments for non-participating provinces to Canada Student and Apprentice Loans	383,041	326,467
Total accounts payable and accrued liabilities	8,746,998	2,199,113

8. Designated Amount Fund - Trust Account

This account was established pursuant to section 21 of the *Financial Administration Act*, to record amounts received and paid under Article 5 of the Indian Residential Schools Settlement Agreement. It was established on September 19, 2007, and provides for the payments referred to as Common Experience Payments (CEP) to eligible former students of recognized Indian Residential Schools and personal credits for educational programs and services to CEP recipients or to certain family members. The account is credited with interest, pursuant to section 21(2) of the *Financial Administration Act*. The Designated Amount Fund is co-administered by the Trustee, the Government of Canada, represented jointly by the Minister of Families, Children and Social Development and the Minister of Crown-Indigenous Relations.

	2020	2019
	(in thousands of dollars)	
Designated Amount Fund - beginning of year	18,437	82,977
Interest credited to the Trust account	234	361
Payments and other charges	(3,303)	(64,901)
Designated Amount Fund - end of year	15,368	18,437

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

9. Government Annuities Account

ESDC administers the Government Annuities Account. This account was established by the *Government Annuities Act*, and modified by the *Government Annuities Improvement Act*, which discontinued sales of annuities in 1975. The account is valued on an actuarial basis each year, with the deficit or surplus charged or credited to the Consolidated Revenue Fund.

The purpose of the *Government Annuities Act* was to assist Canadians to provide for their later years through the purchase of Government annuities.

Receipts and other credits consist of premiums received, funds reclaimed from the Consolidated Revenue Fund for previously untraceable annuitants, earned interest and any transfer needed to cover the actuarial deficit. Payments and other charges represent matured annuities, the commuted value of death benefits, premium refunds and withdrawals, as well as actuarial surpluses and unclaimed annuities. The amounts of unclaimed annuities related to untraceable annuitants are transferred to non-tax revenues.

The Government Annuities Account is valued on an actuarial basis each year, initially using prescribed mortality and discount rates, with the deficit or surplus charged or credited to the Consolidated Revenue Fund. Starting in fiscal year 2017-2018, any adjustments required under the Government's accounting policies are recorded through an allowance adjustment account. The allowance account reflects the adjustment to the liability due to the differential between prescribed rates and best estimates of experience-adjusted mortality tables and discount rate. The discount rate used to measure the present value of accrued benefits is based on the Government's cost of borrowing derived from the yields on the actual zero-coupon yield curve for Government of Canada bonds which reflect the timing of the expected future cash flows.

	2020	2019
	(in thousands of dollars)	
Government Annuities Account - beginning of year	96,302	107,780
Receipts and other credits	6,174	6,879
Payments and other charges	(17,069)	(18,357)
Government Annuities Account - Subtotal	85,407	96,302
Allowance for pension adjustment- beginning of year	26,641	26,866
Allowance for pension adjustment- for the year	2,713	(225)
Allowance for pension adjustment- end of year	29,354	26,641
Government Annuities Account - end of year	114,761	122,943

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

10. Employee future benefits

(a) Pension benefits: ESDC'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 Plans benefits and they are indexed to inflation.

Both the employees and ESDC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to the *Economic Action Plan 2012*, employee contributors have been divided into two groups - Group 1 relates 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 2020 expense amounts to \$184.6 million (\$172.7 million in 2019). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2019) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2019) the employee contributions.

ESDC'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 ESDC's employees were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2020, substantially all settlements for immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

	2020	2019
	(in thousands of dollars)	
Accrued benefit obligation - beginning of year	72,945	77,421
Expense for the year	12,202	3,184
Benefits paid during the year	(6,182)	(7,660)
Accrued benefit obligation - end of year	78,965	72,945

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

11. Tangible capital assets

The following table presents a summary of the transactions and balances for the main categories of tangible capital assets:
(in thousands of dollars)

Class	Cost					Accumulated amortization					Net book value	
	Opening balance	Acquisitions	Adjustments (1)	Disposals and write-offs	Closing balance	Opening balance	Amortization	Adjustments	Disposals and write-offs	Closing balance	2020	2019
Machinery and equipment	1,003	-	-	(73)	930	958	21	-	(73)	906	24	45
Computer hardware	90	290	-	-	380	33	37	-	-	70	310	57
Computer software	471,699	-	5,813	-	477,512	400,438	41,293	-	-	441,731	35,781	71,261
Other equipment and furniture	3,504	273	-	(12)	3,765	3,447	31	-	(12)	3,466	299	57
Vehicles	2,450	282	49	(195)	2,586	1,591	313	5	(195)	1,714	872	859
Assets under construction	133,156	97,521	(8,342)	(838)	221,497	-	-	-	-	-	221,497	133,156
Leasehold improvements	318,766	-	2,529	-	321,295	277,772	11,740	-	-	289,512	31,783	40,994
	930,668	98,366	49	(1,118)	1,027,965	684,239	53,435	5	(280)	737,399	290,566	246,429

(1) Adjustments include assets under construction of \$8.3 million that were transferred to the other categories upon completion of the assets.

Transfers of tangible capital assets from other government departments amounted to a net book value of \$44,232 (\$48,888 of cost less \$4,656 of accumulated amortization). These transfers are included in the adjustments columns.

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

12. Departmental net financial position

A portion of ESDC's net financial position is used for a specific purpose. Related revenues and expenses are included in the Consolidated Statement of Operations and Departmental Net Financial Position.

The Employment Insurance Operating (EIO) Account was established in the accounts of Canada by the *Employment Insurance Act* (the Act). All amounts received under the Act are deposited in the Consolidated Revenue Fund (CRF) and credited to the EIO Account. The benefits and the costs of administration of the Act are paid out of the CRF and charged to the EIO Account.

	2020	2019
	(in thousands of dollars)	
EIO Account - restricted		
Balance - beginning of year - restricted	4,915,647	2,951,358
Revenues		
EI premiums	22,636,570	22,698,401
Penalties and interest on EI receivables	77,087	83,243
	22,713,657	22,781,644
Expenses		
Benefits and support measures		
Income benefits	(17,749,940)	(16,866,292)
Transfers to provinces and territories related to Labour Market Development Agreements	(2,329,238)	(2,170,960)
EI Emergency Response Benefit	(1,761,404)	-
Support measures	(146,934)	(136,960)
Benefit repayments from higher income claimants	237,048	286,247
Administration costs	(1,909,035)	(1,830,404)
Bad debts	(65,274)	(98,986)
	(23,724,777)	(20,817,355)
Net EIO Account transactions	(1,011,120)	1,964,289
Balance - end of year - restricted	3,904,527	4,915,647
Unrestricted	13,680,827	14,635,195
Departmental net financial position - end of year	17,585,354	19,550,842

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

13. Estimated overpayments and underpayments of benefits

Given the large volume of EI claims and OAS related applications (OAS, Guaranteed Income Supplement and Allowance) and the need for prompt service, ESDC applies a risk-based approach to its control procedures. The verification of EI claims and OAS related applications is conducted both prior and after the payment of benefits, using a combination of up-front and automated control measures and post-payment verification activities.

In order to measure the accuracy of EI and OAS related benefit payments, respective programs were put in place to establish an annual payment accuracy rate and estimate, through statistical extrapolation, the most likely value of incorrect benefit payments. For benefits paid during the twelve months ended March 31, 2020, these undetected overpayments and underpayments are estimated to be \$862.6 million (\$605.8 million as at March 31, 2019) and \$193.2 million (\$135.3 million as at March 31, 2019) respectively for EI claims and \$856.6 million (\$1,171.7 million as at March 31, 2019) and \$117.3 million (\$148.6 million as at March 31, 2019) respectively for OAS related applications. The annual payment accuracy rate and estimated value of errors are used by the EI and OAS related programs to assess the quality and accuracy of decisions and the need, if any, to improve its systems and practices of processing claims and applications.

The overpayments established during the year, as indicated in Note 4, are not directly linked to the above noted estimated overpayments and underpayments of benefits for the same period.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

14. Contractual obligations and contractual rights

(a) Contractual obligations

The nature of ESDC's activities can result in some large multi-year contracts and obligations whereby ESDC 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:

	2021	2022	2023	2024	2025 and thereafter	Total
	(in thousands of dollars)					
Labour Market Development Agreements including EI administration costs related to LMDA	2,491,757	-	-	-	-	2,491,757
Other transfer payments	2,143,392	1,836,977	1,612,572	624,352	1,819,516	8,036,809
Operating and Maintenance	54,046	44,543	44,633	46,106	94,815	284,143
Total	4,689,195	1,881,520	1,657,205	670,458	1,914,331	10,812,709

Labour Market Development Agreements with eight of the provinces and one territory require a two year notice for cancellation of the agreements, other provinces and territories require a one year notice. The obligations for 2022 cannot be reasonably estimated.

(b) Contractual rights

The activities of ESDC 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 the administration of services on behalf of other government departments and other organizations. Major contractual rights that will generate revenues in future years and that can reasonably be estimated are summarized as follows:

	2021	2022	2023	2024	2025 and thereafter	Total
	(in thousands of dollars)					
Recovery of CPP administration costs	370,371	-	-	-	-	370,371
Other	203,423	193,215	-	-	-	396,638
Total	573,794	193,215	-	-	-	767,009

Employment and Social Development Canada
Notes to the Consolidated Financial Statements (*Unaudited*)
For the year ended March 31

15. Contingent liabilities

Claims, litigations and grievances have been made against ESDC 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. ESDC 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.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

16. Related party transactions

ESDC 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.

The department 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, ESDC received services without charge from certain common service organizations, related to the employer's contribution to the health and dental insurance plans and legal services. These services provided without charge have been recorded in the ESDC's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

	2020	2019
	(in thousands of dollars)	
Employers' contribution to the health and dental insurance plans	71,421	57,898
Legal services	4,243	4,034
Total	75,664	61,932

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, information technology infrastructure services provided by Shared Services Canada and audit services provided by the Office of the Auditor General are not included in the ESDC's Consolidated Statement of Operations and Departmental Net Financial Position.

(b) Common services provided without charge to other government departments

During the year, ESDC provided services without charge to other government departments, related to the provision of workers' compensation services, amounted to \$22.3 million in 2020 (\$24.5 million in 2019).

(c) Other transactions with related parties

In the normal course of business, ESDC enters into transactions with government departments, agencies and Crown corporations. The assets, liabilities, revenues and expenses related to these transactions are as follows:

	2020	2019
	(in thousands of dollars)	
Expenses - Other government departments, agencies and Crown corporations	789,337	715,062
Revenues - Other government departments, agencies and Crown corporations	201,959	189,772

Expenses and revenues disclosed in (c) exclude common services provided without charge, which are already disclosed in (a).

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

17. Segmented information

Presentation by segment is based on ESDC's core responsibilities. 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 core responsibilities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

(in thousands of dollars)	Pensions and Benefits	Learning, Skills Development and Employment	Internal Services	Social Development	Information Delivery and Services for Other Departments	Working Conditions and Workplace Relations	2020 Total	2019 Total
Benefits and transfer payments								
Individuals	56,735,406	8,069,751	-	9,763	-	(2,348)	64,812,572	57,168,645
El benefits and support measures	-	21,750,468	-	-	-	-	21,750,468	18,887,965
Other	-	2,561,399	-	852,153	-	5,554	3,419,106	2,838,256
	56,735,406	32,381,618	-	861,916	-	3,206	89,982,146	78,894,866
Operating expenses								
Salaries and benefits	468,421	1,001,419	498,668	55,466	172,158	100,273	2,296,405	2,078,968
Professional and special services	22,798	338,149	273,069	6,602	31,749	9,824	682,191	681,861
Bad debts	37,422	473,507	1,309	5,149	-	52,633	570,020	310,920
Accommodation and rentals	158	5,780	199,462	233	15,567	405	221,605	215,369
El administration costs charged by CRA	-	212,653	-	-	-	-	212,653	212,755
Transportation	18,713	31,533	34,559	1,842	3,022	2,615	92,284	61,263
Machinery and equipment	540	4,249	60,159	140	2,017	222	67,327	30,747
Amortization	8,786	16,498	27,611	6	410	124	53,435	70,331
Other	54,108	87,829	(113,617)	602	16,301	1,537	46,760	17,559
Expenses incurred on behalf of Government	-	(41,531)	-	-	-	-	(41,531)	(43,438)
	610,946	2,130,086	981,220	70,040	241,224	167,633	4,201,149	3,636,335
	57,346,352	34,511,704	981,220	931,956	241,224	170,839	94,183,295	82,531,201
Revenues								
Employment Insurance (note 12)	-	22,713,657	-	-	-	-	22,713,657	22,781,644
Interest on loans receivable	-	762,184	-	-	-	-	762,184	855,042
Recovery of CPP administration costs	289,083	-	134,223	-	-	-	423,306	373,772
Recovery of OGD service delivery costs	-	2	24,205	-	172,542	-	196,749	169,392
Other	36	66,952	410	12	214	2,955	70,579	82,919
Revenues earned on behalf of Government	(29,090)	(824,528)	(32,804)	(12)	(172,756)	(2,270)	(1,061,460)	(977,934)
	260,029	22,718,267	126,034	-	-	685	23,105,015	23,284,835
Net cost of operations before government funding and transfers	57,086,323	11,793,437	855,186	931,956	241,224	170,154	71,078,280	59,246,366

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

18. Subsequent events

COVID-19 pandemic

In March 2020, the World Health Organization classified the outbreak of COVID-19 disease as a global pandemic. In response, the government enacted emergency measures to combat the spread of the virus and announced the COVID-19 Economic Response Plan to help stabilize the economy during the pandemic.

The emergency measures introduced by the government are intended to protect the health and safety of Canadians and provide direct support to Canadian workers and businesses. The impact of the measures for which accounting recognition criteria were met prior to March 31, 2020, are recognized in ESDC's 2020 consolidated financial statements. Since most of the measures were implemented subsequent to year-end, the ESDC 2021 consolidated financial statements will be more significantly impacted.

The most significant of these measures is the Canada Emergency Response Benefit (CERB), a taxable benefit of \$2,000 every 4 weeks for up to 16 weeks for eligible Canadians. Subsequent to March 31, 2020, it was announced that the benefit would be extended to a maximum of 28 weeks.

CERB payments to individuals eligible for EI are recorded as part of EI expenses and are paid out of the EIO Account. Payments to those individuals not eligible for EI are recorded under the Canada Emergency Response Benefit and have not been charged to the EIO Account.

As a result of the economic impact of the COVID-19, on September 14, 2020, the Government of Canada used its authority under the Act to temporarily limit the change in the premium rate to zero for 2021 and 2022 in order to freeze the EI premium rate at the 2020 level. The Government of Canada also confirmed that it will be crediting the EIO Account for the costs related to the CERB.

Other emergency measures introduced by the government were either new measures or changes and enhancements to programs that existed at March 31. The announcements were made between March 2020 and the completion of these financial statements. Below is a non-exhaustive list of the principal programs that have been announced or are impacted by these measures:

- Old Age Security and Guaranteed Income Supplement
- Canada Summer Jobs
- Reaching Home initiative
- Canada Student Loans program
- Canada Emergency Student Benefit
- Canada Student Grants
- Canada Student Service Grant

Major government announcements including the Speech from the Throne in September 2020 and legislation introduced in Parliament authorizing new spending measures from April 1, 2020 onward will have an impact on the consolidated financial statements. As this pandemic is ongoing and the government response continues to evolve, the government is unable to determine the impact on the financial results of future years. The effects of the pandemic will continue into the foreseeable future, and the government will continue to assess and monitor the effects on its financial condition, and provide regular updates on its financial results through regular reporting processes and periodic economic and fiscal updates.

19. Comparative information

Certain comparative figures have been reclassified to conform to the current year's presentation.

Employment and Social Development Canada

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting for the fiscal year ended March 31, 2020

1 Introduction

This document provides summary information on the measures taken by management to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by Employment and Social Development Canada (ESDC) as at March 31, 2020, including progress, results and related action plans unique to the Department.

Detailed information on ESDC's authority, mandate and program activities can be found in the [Departmental Plan](#) and [Departmental Results Report](#).

2 Departmental system of internal control over financial reporting

2.1 Internal Control Management

ESDC recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and is well equipped to exercise these responsibilities effectively. The Department's focus is to ensure risks are managed well through a responsive and risk-based control environment that enables continuous improvement and innovation.

The Department has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. The ESDC Financial Internal Control Framework was revised and approved by the primary departmental assurance providers and the Deputy Minister in October 2019. The Framework was a collaborative effort between the Assistant Deputy Minister and members of the Internal Control and Financial Assurance Senior Working Group (ICFA SWG) to depict the financial control activities within the responsibility of each of its members. The Framework also includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management including roles and responsibilities for senior managers in their areas of responsibility for control management; and
- Monitoring and regular updates on internal control management plus assessment results and action plans to the Chief Financial Officer (CFO), Corporate Management Committee (CMC) and Departmental Audit Committee (DAC).

The DAC is an advisory committee which provides objective views on the Department's risk management, control and governance processes as well as general reporting.

Other key committees with responsibilities for maintaining and overseeing the effectiveness of its system of ICFR include:

Portfolio Management Board (PMB) – As the main decision-making body of the portfolio, the PMB determines strategic directions and priorities; approves portfolio-wide plans and strategies; and makes decisions on strategic issues that affect the portfolio as a whole. The PMB also acts as the key portfolio vehicle for information sharing, consultation and collaboration at the Deputy Minister and Assistant Deputy Minister (ADM) levels. The CFO is a member of this committee.

Corporate Management Committee (CMC) – Oversees the implementation of the portfolio's management agenda, as approved by the PMB, including the achievement of the management outcomes and objectives set out in the Integrated Business Plan, the Management Accountability Framework, and

the corporate fiscal and planning processes. The committee also oversees departmental activities related to the operationalization of departmental security measures. The CFO is a member of this committee.

ICFA SWG – This ADM-level working group was created to promote a departmental-wide coordinated approach to audit, oversight and other monitoring activities undertaken across the department with a focus on financial internal controls. Its membership includes the primary departmental assurance providers and the group focuses on collaboration at all levels within its member branches with the objective of strengthening internal controls in support of the Deputy Minister’s responsibilities as Accounting Officer. The CFO is the chair of the ICFA SWG committee.

ESDC’s control environment also includes a series of measures to equip its staff to manage risks well through raising awareness, providing appropriate training to enhance skills and expertise required. Key measures are comprised of:

- An Office of Values and Ethics;
- ESDC Code of Conduct;
- Guidelines of Professional conduct for the Labour Program and Service Canada;
- A dedicated division under the CFO on internal control;
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- Ongoing communications in core areas of financial management;
- Departmental policies tailored to ESDC’s control environment;
- Periodically updated delegated authorities matrix;
- A Risk Assessment, Management and Mitigation methodology for Grants and Contributions;
- Integrated Business Plan;
- Multi-year risk based internal audit plan;
- ESDC Financial Internal Control Framework;
- Regularly updated Corporate Risk Profile;
- Recipient Audit Strategy; and
- Payment Accuracy Review (PAAR) and Processing Accuracy Review (PRAR) for major benefit programs.

2.2 Service arrangements relevant to financial statements

ESDC relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

Common Arrangements:

- Public Services and Procurement Canada centrally administers the payments of salaries, the delivery of compensation and benefits services, the procurement of goods and services in accordance with the ESDC delegation instrument and provides accommodation services;
- Treasury Board Secretariat provides the Department with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to ESDC; and
- Shared Services Canada (SSC) provides information technology services to ESDC in the areas of data center and network services.

Specific Arrangements:

- ESDC, through the Service Canada (SC) initiative, acts as a focal point for government access to Canadians. As a result, ESDC has entered into several agreements with many federal -

government departments designed to provide Canadians with better access to programs and services;

- A private service provider, pursuant to a contract with the Canada Student Loans Program, administers the delivery of the Direct loans issued under the Canada Student Loans Program. As a result, reliance is placed on the control procedures of the external service provider and the annual audit on financial information and internal controls performed by an external audit firm;
- The Canada Revenue Agency (CRA) provides full collection services to ESDC for the recovery of its Accounts Receivable. Although CRA uses ESDC's departmental accounts receivable systems (DARS), reliance is placed on the control procedures at CRA for the collection services and CRA's reporting capacity; and
- The CRA also administers a number of activities for the Canada Pension Plan (CPP), Old Age Security (OAS) and the Employment Insurance (EI) Operating Account.

3 Departmental assessment results during fiscal year 2019-2020

In 2016-2017 the Department commenced its full implementation of its ongoing risk-based monitoring program of ICFR.

In 2019-2020, ESDC completed or substantially completed its assessment of the following key control areas based on its 2018-2019 ongoing risk-based monitoring plan:

- Entity Level Controls (Risk Assessment Component);
- IT General Controls (ITGC) (Year three of a three year cycle);
- Employment Insurance
- Old Age Security; and
- Pay Administration.

ESDC determined that key financial controls examined are generally working effectively to prevent or detect a material misstatement to the Financial Statements. There are however areas that have been identified requiring remediation including:

Entity Level Controls – Risk Assessment Component

The assessment of the Risk Assessment Components was conducted as part of a three-year cycle to assess all of the five ELC components (Risk Assessment, Control Environment, Control Activities, Information & Communication, and Monitoring).

The assessment found no significant control deficiencies.

IT General Controls

The ongoing monitoring of ITGCs is conducted as part of a three-year cycle, which assesses SAP and 16 feeder systems. The assessment of ITGCs could not be fully completed during the year due to the competing priorities of the stakeholders due to the pandemic. The SAP and the DARS systems were assessed as planned and key recommendations were noted in the access management and change management control pillars. The assessment of the remaining feeder systems will be finalized in 2020-2021.

The management response action plan (MRAP) will be prepared by the process owner with a view to strengthen control. The progress against this plan will be tracked during the fiscal year 2020-2021.

Employment Insurance (EI)

The assessment of the EI process included the following twenty-six (26) sub-processes: documents receive by mail, paper application submission, electronic application submission, paper Record of Employment (ROE) submission, electronic ROE submission, workload assignment, adjudication process, calculation process, electronic payment, payment rejects, bi-weekly reporting, recording payments, Processing Accuracy Review (PRAR), Payment Accuracy Review (PAAR), monitoring, internal access controls, managing employment insurance administrative costs, administrative fees for the employment insurance program, establishment of contribution revenue, monthly transfers from the Canada Revenue Agency, contribution revenue estimate revision, year-end accounting process, overpayment adjustment in DARS, overpayment under appeals or reconsiderations, recording accounts receivable from DARS to SAP, and Year-end reconciliation of DARS against SAP.

The assessment found no significant control deficiencies.

Old Age Security

The assessment of the Old Age Security process included the following eleven (11) sub-processes: processing incoming mail, new application, modifications to existing OAS accounts, reconciliation of OAS payments, priority payments, manage overpayments and write-offs, manage overpayments and remissions, monitoring – Processing Accuracy Review (PRAR), monitoring – Payment Accuracy Review (PAAR), monitoring – financial system reconciliation, and monitoring – review delegation of authorities, for payments over \$10,000, system access and reporting. As a result of the assessment, one key recommendation regarding the review of OAS System access rights was noted.

The MRAP will be prepared by the process owner with a view to strengthen control. The progress against this plan will be tracked during the fiscal year 2020-2021.

Pay Administration

The assessment of the Pay Administration process included the following three (3) sub-processes: pre-payment, payment, and post-payment. As a result of the assessment, one key recommendation regarding strengthening the post-payment verification to include a review of the validity of Section 34 approvals in Phoenix for time and labour transactions and leave without pay transaction was noted.

The MRAP will be prepared by the process owner with a view to strengthen control. The progress against this plan will be tracked during the fiscal year 2020-2021.

4 Departmental action plan

4.1 Progress during fiscal year 2019-2020

During 2019-2020, ESDC conducted its ongoing monitoring according to the previous year's rotational plan as shown in the following table:

Elements in previous year's action plan	Status
Entity Level Controls	<ul style="list-style-type: none">• Ongoing monitoring assessment of operating effectiveness was completed as planned for the Risk Assessment Component.

IT General Controls under departmental management	<ul style="list-style-type: none"> • The year-three ongoing monitoring assessment of operating effectiveness was partially completed as planned due to competing priorities of the stakeholders due to the pandemic. • The assessment over the remaining systems will be finalized in 2020-2021
Employment Insurance	<ul style="list-style-type: none"> • Ongoing monitoring assessment of operating effectiveness was completed as planned.
Old Age Security	<ul style="list-style-type: none"> • Ongoing monitoring assessment of operating effectiveness was completed as planned. • Remedial plans will be tracked during 2020-2021.
Pay Administration	<ul style="list-style-type: none"> • Ongoing monitoring assessment of operating effectiveness was completed as planned. • Remedial plans will be tracked during 2020-2021.

4.2 Action plan for the next fiscal year and subsequent years

ESDC's ongoing risk-based monitoring plan was changed from three years to five years commencing in 2019-2020 for all key control areas. The extension of the ongoing monitoring plan is to account for the expanded scope of work to encompass additional financial management processes to comply with the Treasury Board Secretariat Policy on Financial Management by 2023. Also, ESDC will revert to a rotational assessment for Entity Level Controls as no significant control weaknesses were identified to warrant a more frequent reassessment.

The five-year ongoing monitoring plan is shown in the table below. Note that the plan will be adjusted as required subject to an annual revalidation of the high-risk control areas, the timing of other relevant audit and monitoring activities and the impact of changes that occurred during the year or that are planned for the coming year(s).

Rotational Ongoing Risk-Based Monitoring Plan					
Key Control Areas	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Entity Level Controls					X
IT General Computer Controls ¹	X	X	X	X	X
Procure to Payment	X			X	
Canada Student Loans Program		X			X
Employment Insurance		X		X	
Grants & Contributions		X			X
Financial Close & Reporting			X		
Old Age Security			X		
Pay Administration ²			X		X
Planning & Budgeting			X		
Revenue, Receivables and Receipts			X		

During 2020-2021, ESDC will assess the impact of the pandemic crisis on its risk assessment as well as on its key control areas.

¹ A portion of IT General Controls will be monitored annually, based on risk. Over a five year cycle, all in scope IT systems will be revisited.

² The timing of the monitoring of Pay Administration takes into account the various audit and assurance work conducted by other assurance providers, that will be conducted in 2020-21, to alleviate audit fatigue on the implicated branches.