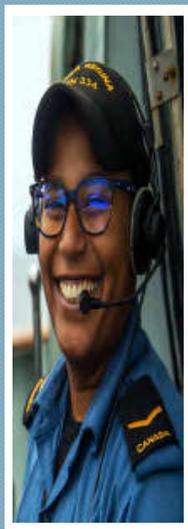




CONSOLIDATED DEPARTMENTAL FINANCIAL STATEMENTS

2019-20 (UNAUDITED)



STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING (UNAUDITED)

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2020, and all information contained in these statements rests with the management of the Department of National Defence (the department). 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 (PSAS), with the exception of the accounting for pension benefits where the presentation and results using the stated accounting policies do not result in any significant differences from PSAS.

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 the department's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the department'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 the department and through conducting an annual assessment of the effectiveness of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify, 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. The results and action plans, along with the effect of COVID-19 on the system of ICFR are illustrated in the department's Annex to the Statement of Management Responsibility.

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

The financial statements of the department have not been audited.



Jody Thomas
Deputy Minister
Ottawa, Canada



Cheri Crosby, CPA, CMA
Chief Financial Officer

Date: October 09, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at March 31

(in thousands of dollars)	2020	2019 (Restated note 21)
Liabilities		
Accounts payable and accrued liabilities (note 4)	4,010,237	3,706,035
Vacation pay and compensatory leave	229,998	202,354
Environmental liabilities (note 5)	651,621	641,626
Deposits and trust accounts (note 6)	4,094	4,283
Deferred revenue (note 7)	9,491	5,865
Canadian Forces pension and insurance accounts (note 8)	622,047	609,306
Lease obligations for tangible capital assets (note 9)	52,038	96,669
Employee future benefits (note 10)	640,132	632,417
Total liabilities	6,219,658	5,898,555
Financial assets		
Due from Consolidated Revenue Fund	2,857,909	2,784,411
Accounts receivable (note 11)	376,753	357,982
Loans and advances (note 12)	50,758	56,301
Total gross financial assets	3,285,420	3,198,694
Financial assets held on behalf of government		
Accounts receivable (note 11)	(21,687)	(8,087)
Total financial assets held on behalf of government	(21,687)	(8,087)
Total net financial assets	3,263,733	3,190,607
Departmental net debt	2,955,925	2,707,948
Non-financial assets		
Prepaid expenses (note 13)	968,878	620,420
Inventory (note 14)	5,118,921	5,604,609
Tangible capital assets (note 15)	35,416,481	33,789,572
Total non-financial assets	41,504,280	40,014,601
Departmental net financial position	38,548,355	37,306,653

Contingent liabilities (note 16)

Contractual obligations and contractual rights (note 17)

The accompanying notes form an integral part of these financial statements.



Jody Thomas
Deputy Minister
Ottawa, Canada



Cheri Crosby, CPA, CMA
Chief Financial Officer

Date: October 09, 2020

CONSOLIDATED STATEMENT OF OPERATIONS AND DEPARTMENTAL NET FINANCIAL POSITION (UNAUDITED)

For the year ended March 31

(in thousands of dollars)	2020 Planned Results**	2020	2019 (Restated note 21)*
Expenses			
Operations	1,196,904	1,088,003	1,420,112
Ready Forces	9,684,275	9,625,858	9,558,513
Defence Team	3,427,821	3,586,801	2,681,344
Future Force Design	808,851	705,873	696,070
Procurement of Capabilities	2,951,918	2,991,856	4,627,451
Sustainable Bases, Information Technology Systems and Infrastructure	3,075,209	3,640,987	3,291,366
Internal services	698,521	1,200,790	967,540
Total expenses	21,843,499	22,840,168	23,242,396
Revenues			
Sale of goods and services	392,002	394,160	382,874
Gains on disposals of assets	20,366	16,935	16,426
Other	38,411	36,011	11,734
Interest and gains on foreign exchange	17,232	15,717	13,442
Revenues earned on behalf of government	(11,895)	(34,682)	(14,101)
Total revenues	456,116	428,141	410,375
Net cost from continuing operations	21,387,383	22,412,027	22,832,021
Government funding and transfers			
Net cash provided by government		22,729,313	21,568,795
Change in due from Consolidated Revenue Fund		73,498	52,875
Services provided without charge by other government departments (note 18)		859,218	784,836
Transfer of Accounts receivable to Public Services and Procurement Canada		(4)	(2)
Transfer of assets and liabilities to other government departments (note 15)		(8,296)	(3,321)
Net cost of operations after government funding and transfers		(1,241,702)	428,838
Departmental net financial position — beginning of year		37,306,653	37,735,491
Departmental net financial position – end of year		38,548,355	37,306,653

Segmented information (note 19)

The accompanying notes form an integral part of these financial statements.

*Comparative figures have been reclassified to conform to the current year's presentation.

**The planned results are the reported figures within the Consolidated Future-Oriented Statement of Operations 2019–20 Departmental Plan.

CONSOLIDATED STATEMENT OF CHANGE IN DEPARTMENTAL NET DEBT (UNAUDITED)

For the year ended March 31

(in thousands of dollars)	2020	2019 (Restated note 21)
Net cost of operations after government funding and transfers	(1,241,702)	428,838
Change due to tangible capital assets		
Acquisition of tangible capital assets	3,858,770	3,494,842
Amortization of tangible capital assets (note 15)	(2,640,839)	(2,680,219)
Proceeds from disposal of tangible capital assets	(16,936)	(16,426)
Loss on disposals of tangible capital assets	(36,105)	(101,994)
Adjustments of tangible capital assets	461,915	(212,035)
Transfer (to) from other government departments (note 15)	104	(3,321)
Total change due to tangible capital assets	1,626,909	480,847
Change due to inventory	(485,688)	(62,176)
Change due to prepaid expenses	348,458	(25,292)
Net increase in departmental net debt	247,977	822,217
Departmental net debt — beginning of year	2,707,948	1,885,731
Departmental net debt — end of year	2,955,925	2,707,948

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)

For the year ended March 31

(in thousands of dollars)	2020	2019 (Restated note 21)
Operating activities		
Net cost of operations before government funding and transfers	22,412,027	22,832,021
Non-cash items included in net cost of operations:		
Amortization of tangible capital assets (note 15)	(2,640,839)	(2,680,219)
Loss on disposals of tangible capital assets	(36,105)	(101,994)
Adjustments of tangible capital assets	461,915	(212,035)
Transfer of assets to other government departments	8,400	0
Services provided without charge by other government departments (note 18)	(859,218)	(784,836)
Transition payments for implementing salary payments in arrears	4	2
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivables	5,171	(623,952)
Increase (decrease) in loans and advances	(5,543)	10,169
Increase (decrease) in prepaid expenses	348,458	(25,292)
Increase (decrease) in inventory	(485,688)	(62,176)
(Increase) in accounts payable and accrued liabilities	(304,202)	(406,427)
(Increase) in vacation pay and compensatory leave	(27,644)	(13,737)
(Increase) in environmental liabilities	(9,995)	(28,088)
Decrease in deposits and trust accounts	189	223
(Increase) decrease in deferred revenue	(3,626)	3,977
(Increase) decrease in Canadian Forces pension and insurance accounts	(12,741)	87,517
(Increase) decrease in employee future benefits	(7,715)	22,046
Cash used by operating activities	18,842,848	18,017,199
Capital investing activities		
Acquisitions of tangible capital assets	3,858,770	3,494,842
Proceeds from disposal of tangible capital assets	(16,936)	(16,426)
Cash used in capital investing activities	3,841,834	3,478,416
Financing activities		
Lease payments for tangible capital assets	44,631	73,180
Cash used by financing activities	44,631	73,180
Net cash provided by Government of Canada	22,729,313	21,568,795

The accompanying notes form an integral part of these financial statements.

For the year ended March 31

1. Authority and objectives

> Authorities

The Department of National Defence (the department) was established by the *National Defence Act* (NDA). Under section 3 of the NDA, the Minister of National Defence presides over the department. Under section 4 of the NDA, the Minister has the management and direction of the Canadian Forces and of all matters relating to national defence and is responsible for the construction and maintenance of all defence establishments and works for the defence of Canada, and research relating to the defence of Canada and to the development of and improvements in materiel.

> Objectives

Strong, Secure, Engaged is the defence policy that presents a vision and approach to defence by the Government of Canada. Strong, Secure, Engaged provides a bold vision to defence that will make Canada:

- **Strong at home**, with a military ready and able to defend its sovereignty, and to assist in times of natural disaster, support search and rescue, or respond to other emergencies;
- **Secure in North America**, active in a renewed defence partnership in the North American Aerospace Defense Command (NORAD) and with the United States to monitor and defend continental airspace and ocean areas;
- **Engaged in the world**, with the Canadian Armed Forces doing its part in Canada's contributions to a more stable, peaceful world, including peace support operations and peacekeeping.

The Departmental Results Framework is structured by the following six core responsibilities and internal services:

(a) Operations

Detect, deter and defend against threats to or attacks on Canada. Assist civil authorities and law enforcement, including counter-terrorism, in support of national security,

domestic disasters or major emergencies, and conduct search and rescue operations.

Detect, deter and defend against threats to or attacks on North America in partnership with the United States, including through NORAD.

Lead and/or contribute forces to NATO and coalition efforts to deter and defeat adversaries, including terrorists, to support global stability. Lead and/or contribute to international peace operations and stabilization missions with the United Nations, NATO and other multilateral partners. Engage in capacity building to support the security of other nations and their ability to contribute to security and the security of Canadians abroad. Assist civil authorities and non-governmental partners in responding to international and domestic disasters or major emergencies.

(b) Ready Forces

Field combat ready forces able to succeed in an unpredictable and complex security environment in the conduct of concurrent operations associated with all mandated missions.

(c) Defence Team

Recruit, develop and support an agile and diverse Defence Team, within a healthy workplace free from harmful behaviour; support military families; and meet the needs of all retiring military personnel, including the ill and injured. Strengthen Canadian communities by investing in youth.

(d) Future Force Design

Develop and design the future force through a deep understanding of the future operating environment and security risks to Canada and Canadian interests. Enhance Defence's ability to identify, prevent, adapt and respond to a wide range of contingencies through collaborative innovation networks and advanced research.

For the year ended March 31

(e) Procurement of Capabilities

Procure advanced capabilities to maintain an advantage over potential adversaries and to keep pace with allies, while fully leveraging defence innovation and technology. Streamlined and flexible procurement arrangements ensure Defence is equipped to conduct missions.

(f) Sustainable Bases, Information Technology Systems and Infrastructure

Develop and manage modern, operational and sustainable bases and infrastructure. Contribute to the achievement of federal environmental targets.

(g) 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 Service.

2. Summary of significant accounting policies

These Consolidated Departmental Financial statements have been prepared using the government's accounting policies stated below, which are based on Canadian public sector accounting standard (PSAS), with the exception of the accounting for pension benefits where the presentation and result using the stated accounting policies do not result in any significant differences from PSAS. The pension benefits for members of the CAF (Canadian Armed Forces) follow accounting requirements as outlined in the Treasury Board Accounting Standards, as described in note 2(g)(i), which require the actuarial surpluses or deficiencies to be recognized in the Consolidated financial statements of the Government of Canada, and not the department. Further disclosure is presented in note 8.

Significant accounting policies are as follows:

(a) Parliamentary authorities

The department is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to the department 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 Future-Oriented Condensed Statement of Operations included in the 2019-20 Departmental Plan.

Planned results are not presented in the "Government funding and transfers" section of the Consolidated Statements of Operations and Departmental Net Financial Position and in the Consolidated Statement of Change in Departmental Net Debt because these amounts were not included in the 2019-20 Departmental Plan.

For the year ended March 31

(b) Consolidation

These Consolidated Departmental Financial Statements include the accounts of the sub-entities for which the Deputy Minister (DM) is accountable. The accounts of these sub-entities have been consolidated with those of the department, and all inter-organizational balances and transactions have been eliminated. The department is comprised of the DND, the CAF and several related organizations and agencies in the Defence Portfolio, all of which carry out the Defence mission and are part of the Defence Services Program. Organizations and agencies that are part of these Consolidated Departmental Financial Statements include the following:

- Canadian Cadet Program and the Junior Canadian Rangers
- Canadian Forces Housing Agency
- Defence Research and Development Canada
- Office of the National Defence and the Canadian Forces Ombudsman
- Office of the Judge Advocate General
- Office of the Chief Military Judge
- Independent Review Panel for Defence Acquisition

The Military Grievances External Review Committee, the Military Police Complaints Commission of Canada, the Communications Security Establishment and the Office of the Communications Security Establishment Commissioner are excluded from the consolidation because these organizations are not part of the Defence Services Program although they fall under the responsibility of the Minister of National Defence.

(c) Net cash provided by Government

The department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the department is deposited to the CRF, and all cash disbursements made by the department are paid from the CRF. The net cash provided by the government is the difference between all cash receipts and cash disbursements, including transactions between departments of the government.

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

(e) Revenues

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Deferred revenue consists of amounts received in advance from external parties for the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned. Also, funds received from external parties for a specified purpose are recorded upon receipt as deferred revenue.
- Other revenues are recognized 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 the department's liabilities. While the DM is expected to maintain accounting control, she 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 department's gross revenues.

(f) Expenses

Expenses are recorded on an accrual basis:

- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility or the entitlements criteria (for grants) or the performance conditions (for contributions) established for the transfer payment program. In situations where transfer payments do not form part of an existing program, payments are recorded as expenses when the government announces a decision to make a non-recurring

For the year ended March 31

transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the Consolidated Departmental Financial Statements.

- 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's contributions to the health and dental insurance plans, worker's compensation coverage and legal services are recorded as operating expenses at their estimated cost.

(g) Employee future benefits

(i) Pension benefits

Eligible civilian employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. The department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The department's responsibility with regard to the Plan is limited to its contributions. Actuarial surplus or deficiencies are recognized in the Consolidated financial statements of the Government of Canada, as the Plan's sponsor.

The department administers pension benefits for members of the CAF, both Regular and Reserve forces. The department contributes towards current and past service of members, and funds any actuarial shortfalls determined by the Chief Actuary of Canada. In addition to the regular contributions, the legislation also requires the department to make contributions for actuarial deficiencies in the pension plans. These contributions by the department are expensed in the year they are incurred. This accounting treatment corresponds to the funding provided to departments through Parliamentary authorities. All assets and liabilities related to the CAF pension plan are not reflected in the department's Consolidated Financial Statements. As the Plan's sponsor, the Government of Canada, recognises the plans assets and the actuarial estimate of the liabilities in the Consolidated financial statements of the Government of Canada (for details, see note 10(a)).

(ii) Severance benefits

The accumulation of severance benefits for voluntary departures ceased for applicable employee groups and CAF members. 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. The obligation related to the severance benefits earned by CAF members is calculated using information derived from the results of the actuarially determined liability for severance benefits for the CAF population (for details, see note 10(b)).

(h) Accounts and loans receivable

Accounts and loans receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain.

(i) Inventory

Inventories are valued at cost, using a weighted average formula. They are comprised of ammunition and inventory supplies held for future program delivery and are not primarily intended for resale. Inventory managed by contractors and not held in the Defence Resource Management Information System (DRMIS) is valued according to the cost method used by the contractors (first-in, first-out (FIFO), last-in, first-out (LIFO), historical cost or weighted moving average). Inventory identified for disposal or surplus are excluded from the value of inventory as no value is expected to be recovered (for details, see note 14).

(j) Tangible capital 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 15. All tangible capital assets and leasehold improvements having an initial cost of \$30,000 or more are recorded at their acquisition cost.

For the year ended March 31

Asset pooled items (API) are stand-alone assets, self-contained assets, equipment, and spare parts which meet the characteristics of a tangible capital asset, where items may be below the capitalization threshold individually but are typically purchased or held in large quantities so as to represent significant expenditures overall. These items are grouped in pools and are treated as capital assets from a financial perspective. During 2019–20, the department delivered on its multi-year business process review on the financial classification of inventory and asset pooled items. As a result of this work, an adjustment was applied prospectively in 2019–20 (for details, see notes 14 and 15).

Starting in 2019–20, the basis of valuation for asset pooled items (API) changed from standard unit price to weighted moving average price to provide more appropriate presentation in the financial statements. The financial adjustment to account for this transition was applied prospectively.

Amortization of tangible capital assets is performed on a straight-line basis over the estimated useful life of the capital asset as follows:

Asset Class	Amortization Period
Buildings	10–60 years
Works and infrastructure	10–80 years
Machinery and equipment	3–30 years
Informatics hardware	3–10 years
Informatics software	2–10 years
Arms and weapons	3–30 years
Ships and boats	10–35 years
Aircraft	20–40 years
Non-military motor vehicles	2–35 years
Military vehicles	3–25 years
Leasehold improvements	Lesser of useful life of the improvement or term of lease
Betterments	Initial or extended useful life of the asset to which the improvements were made
Leased tangible capital assets	Economic life or term of lease

API are amortized at the estimated useful life of the pool.

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 (for details, see note 15).

(k) Contingent liabilities

Contingent liabilities are potential liabilities, which 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 fails 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, the contingency is disclosed in the notes to the Consolidated Departmental Financial Statements (for details, see note 16).

(l) Environmental liabilities

An environmental liability for the remediation of contaminated sites is recognized when all of the following criteria are satisfied: an environmental standard exists, contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. The liability reflects the government's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the future cash flow 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.

A liability for unexploded explosive ordnance (UXO) affected legacy sites is recognized when there is an appropriate basis for measurement and a reasonable estimate can be made. These liabilities are present obligations arising from past transactions or event, the settlement of which is expected to result in the future sacrifice of economic benefits.

The recorded liabilities are adjusted each year, for present value adjustments, inflation, new obligations, changes in management estimates and actual costs incurred. If the likelihood of the government's responsibility is not determinable, a contingent liability is disclosed in the notes to the consolidated statements.

For the year ended March 31

(m) Transactions involving foreign currencies

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at March 31st. Gains resulting from foreign currency transactions are included as revenues in Interest and gains on foreign exchange, and losses from foreign currency transactions are included in other expenses in the Consolidated Statement of Operations and Departmental Net Financial Position.

(n) Measurement uncertainty

The preparation of these Consolidated Departmental Financial statements requires management to make estimates and assumptions that affect the reported and disclosed amount of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31st. 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 contingent liabilities, remediation liabilities, the liability for employee future benefits, allowance for doubtful accounts, allowances to estimate pricing anomalies and value of obsolete inventory and the useful life of tangible capital assets. Actual results could significantly differ from those estimates.

On March 11, 2020, the World Health Organization declared a global pandemic following the outbreak of a novel coronavirus ("COVID-19"). While the pandemic has affected global economies, the duration and impact of COVID-19 is unknown at this time. As a result, there is uncertainty with respect to the pandemic's impact on management's estimates and assumptions used in the preparation of these Consolidated Departmental Financial Statements.

Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the Consolidated Departmental Financial Statements in the year they become known.

Environmental liabilities are subject to measurement uncertainty as discussed in note 5 due to the evolving technologies used in the estimation of the costs for remediation of contaminated sites, the use of discounted present value of future estimated costs, and the fact that not all sites have had a complete assessment of the extent and nature of remediation or retirement. Changes to underlying assumptions, the timing of the expenditures, the technology employed, or the revisions to environmental standards or changes in regulatory requirements could result in significant changes to the environmental liabilities recorded.

(o) 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 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.

For the year ended March 31

3. Parliamentary authorities

The department 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. Accordingly, the department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

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

(in thousands of dollars)	2020	2019 (Restated note 21)
Net cost of operations before government funding and transfers	22,412,027	22,832,021
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets (note 15)	(2,640,839)	(2,680,219)
Services provided without charge by other government departments (note 18)	(859,218)	(784,836)
(Increase) decrease in employee future benefits	(7,715)	22,046
Refund of previous year's expenses	38,813	42,406
(Increase) in vacation pay and compensatory leave	(27,644)	(13,737)
Loss on disposals of capital assets	(36,105)	(101,994)
Adjustments of tangible capital assets	461,915	(212,035)
Refund of program expenditures	5,530	3,028
(Increase) decrease in deferred revenue	(3,626)	3,977
(Increase) in accrued liabilities not charged to authorities	(309,189)	(941,818)
Bad debt expense	926	(4,983)
(Increase) in environmental liabilities (note 5)	(9,995)	(28,088)
Proceeds from sale of assets	(16,936)	(16,426)
Miscellaneous	99,213	17,929
Total items affecting net cost of operations but not affecting authorities	(3,304,870)	(4,694,750)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisition of tangible capital assets (note 15)	3,858,770	3,494,842
Decrease in lease obligations for tangible capital assets	44,631	73,180
Increase (decrease) in inventory purchases net of usage and adjustments	(485,688)	(62,176)
Increase (decrease) in prepaid expenses	348,458	(25,292)
Transition payments for implementing salary payments in arrears	4	2
Revenues collected from prior year receivables	(33,894)	(1,885)
Total items not affecting net cost of operations but affecting authorities	3,732,281	3,478,671
Current year authorities used	22,839,438	21,615,942

For the year ended March 31

3. Parliamentary authorities (continued)

(b) Authorities provided and used

(in thousands of dollars)	2020	2019
Vote 1 – Operating expenditures	16,930,206	16,071,131
Vote 5 – Capital expenditures	4,455,248	4,211,741
Vote 10 – Grants & contributions	222,590	210,303
Vote 15 – Long-term disability and life insurance plan for members of the Canadian Forces	435,458	0
– Debt write-off	0	15
Vote 20 – Protecting Canada's National Security	311	0
Vote 25 – Renewing Canada's Middle East Strategy	63,037	0
Vote 30 – Supporting Veteran as They Transition to Post-Service Life	4,483	0
Vote 35 – Reinforcing Canada's Support for Ukraine	9,060	0
Statutory amounts	1,656,562	1,612,519
Less:		
Authorities available for future years	(842,364)	(407,315)
Frozen allotments and other planned lapses	(95,153)	(82,452)
Current year authorities used	22,839,438	21,615,942

4. Accounts payable and accrued liabilities

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

(in thousands of dollars)	2020	2019
Accounts payable – other government departments and agencies	137,345	124,515
Accounts payable – external parties	2,437,762	1,624,012
Total accounts payable	2,575,107	1,748,527
Accrued liabilities	1,435,130	1,957,508
Total accounts payable and accrued liabilities	4,010,237	3,706,035

For the year ended March 31

5. Environmental liabilities

Environmental liabilities include the following:

(in thousands of dollars)	2020	2019
Total liabilities for contaminated sites	541,308	526,425
Other environmental liabilities (UXO sites)	110,313	115,201
Total environmental liabilities	651,621	641,626

(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 on identified federal lands allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aids in the identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to the environment and human health.

The department has identified a total of 940 sites (984 sites in 2018–19) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the department has identified 290 sites (284 sites in 2018–19) where action is required and for which a liability of \$497.4 million (\$495.9 million in 2018–19) has been recorded. This liability estimate has been determined after the sites are assessed and is based on environmental experts reviewing the results of site assessments, and proposing possible remediation solutions.

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 180 unassessed sites (178 in 2018–19) where a liability estimate of \$43.9 million (\$30.5 million in 2018–19) has been recorded using this model.

These two estimates combined totaling \$541.3 million (\$526.4 million in 2018–19), represent management's best estimate of the costs required to remediate the sites to the current minimum standard for its use prior to contamination, based on the information available at the financial statement date.

For the remaining 470 sites (522 sites in 2018–19), no liability for remediation has been recognized. Some of these sites are at various stages of testing and evaluation and if remediation is required, liabilities will be reported as soon as a reasonable estimate can be determined. For other sites, the department does not expect to give up any future economic benefits (there is no significant environmental impact or human health threats). These sites will be re-examined and a liability for remediation will be recognized if future economic benefits will be given up.

The following table presents the total estimated amounts of these liabilities by nature and source, the associated expected recoveries and the total undiscounted future expenditures as at March 31, 2020, and March 31, 2019. When the liability estimate is based on a future cash requirement, the amount is adjusted for inflation using a forecast CPI rate of 2% (2.2% in 2018–19). Inflation is included in the undiscounted amount. The Government of Canada's cost of borrowing by reference to the actual zero-coupon yield curve for Government of Canada bonds has been used to discount the estimated future expenditures. The March 2020 rates range from 0.45% (1.55% in 2019) for a 2 year term to 1.37% (1.92% in 2019) for a 30 or greater year term.

For the year ended March 31

5. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

2020			
Nature and source	Number of sites	Estimated liability	Estimated undiscounted expenditure
Military and Former Military Sites ⁽¹⁾	381	319,534,777	329,707,590
Fuel Related Practices ⁽²⁾	281	43,891,739	44,774,889
Landfill / Waste Sites ⁽³⁾	132	25,328,601	26,312,046
Engineering Assets / Air and Land Transportation ⁽⁴⁾	8	649,593	662,479
Marine Facilities / Aquatic Sites ⁽⁵⁾	16	5,550,835	5,872,493
Office / Commercial / Industrial Operations ⁽⁶⁾	51	20,433,777	21,456,043
Other ⁽⁷⁾	71	125,918,214	127,948,904
Totals	940	541,307,536	556,734,444

2019			
Nature and source	Number of sites	Estimated liability	Estimated undiscounted expenditure
Military and Former Military Sites ⁽¹⁾	387	336,744,229	358,187,706
Fuel Related Practices ⁽²⁾	318	41,124,835	42,748,273
Landfill / Waste Sites ⁽³⁾	135	24,239,461	25,362,792
Engineering Assets / Air and Land Transportation ⁽⁴⁾	9	744,520	787,722
Marine Facilities / Aquatic Sites ⁽⁵⁾	18	5,139,072	5,907,220
Office / Commercial / Industrial Operations ⁽⁶⁾	49	20,042,788	22,515,709
Other ⁽⁷⁾	68	98,390,399	103,320,750
Totals	984	526,425,304	558,830,172

(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.

(3) Contamination associated with former landfill/waste site or leaching from materials deposited in the landfill/waste site, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, other organic contaminants, etc.

For the year ended March 31

5. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

⁽⁴⁾ Contamination associated with the operations of engineered assets such as airports, railways and roads where activities such as fuel storage/handling, waste sites, firefighting training facilities and chemical storage areas resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX and other organic contaminants. Sites often have multiple sources of contamination.

⁽⁵⁾ 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.

⁽⁶⁾ Contamination associated with the operations of 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.

⁽⁷⁾ Contamination from other sources, e.g. use of pesticides, herbicides, fertilizers at agricultural sites; use of PCBs, firefighting training areas, firing ranges and training facilities, etc.

Also during the year 98 sites (112 sites in 2018–19) were closed as they were either remediated or assessed to confirm that they no longer meet all the criteria required to record a liability for contaminated sites.

(b) Other environmental liabilities

The department has identified approximately 484 UXO suspected sites (532 sites in 2018–19) for which clearance action may be necessary. Of these sites, 43 sites (43 sites in 2018–19) are confirmed UXO affected sites. Based on the department's best estimates, a liability of \$110.3 million (\$115.2 million in 2018–19) has been recorded for clearance action on 9 sites (9 sites in 2018–19) of the confirmed UXO sites. The remediation has not been completed for any site in 2019–20 (1 site in 2018–19). The remaining 475 suspected sites (523 sites in 2018–19) are currently in the assessment stage and a reasonable estimate cannot yet be determined. Of these sites, the obligation for clearance action is likely for 23 sites, indeterminable for 50 sites and unlikely for 402 sites.

The department's ongoing efforts to assess contaminated sites and UXO affected sites may result in additional environmental liabilities.

For the year ended March 31

6. Deposits and trust accounts

The following table presents details of the department's deposits and trust accounts:

(in thousands of dollars)	2020	2019
Contractor security deposits		
Deposits, beginning of year	3,303	3,804
Deposits received	4,279	6,356
Refunds	(4,744)	(6,857)
Contractor security deposits, end of year	2,838	3,303
Trust account, estates — Armed Services*		
Trust account, beginning of year	980	702
Funds received	1,592	1,586
Payments	(1,316)	(1,308)
Trust account, estates — Armed Services, end of year	1,256	980
Closing balance	4,094	4,283

* The trust account, estates – Armed Services was established to record the service estates of deceased members of the Canadian Forces pursuant to section 42 of the *National Defence Act*. Net assets of estates are distributed to legal heirs under the administration of the Judge Advocate General, in their capacity as Director of Estates.

7. Deferred revenue

Deferred revenue consists of amount received in advance from external parties for the delivery of goods and rendering of services that will be recognized as revenue in a subsequent fiscal year as it is earned. Also, funds received from external parties for a specified purpose are recorded upon receipt as deferred revenue.

(in thousands of dollars)	2020	2019 (Restated)
Foreign governments		
Beginning of year	1,092	4,429
Funds received	25,829	86,184
Revenue recognized	(22,128)	(89,521)
Foreign governments, end of year	4,793	1,092
Other specified purposes		
Beginning of year	4,773	5,413
Funds received	2,179	2,238
Revenue recognized	(2,254)	(2,878)
Other specified purposes, end of year	4,698	4,773
Closing balance	9,491	5,865

For the year ended March 31

8. Canadian Forces pension and insurance account

Established in 1901 under the *Militia Pension Act*, the present Canadian Armed Forces pension plans (the “CF pension plans”) are administered in accordance with the provision of the *Canadian Forces Superannuation Act*. The Canadian Forces pension plan (CFPP) covers all members of the Regular Force component of the CAF. Reserve Force members who have sufficient qualifying service and pensionable earnings are members of either the CFPP or the Reserve Force pension plan (RFPP), which came into force on March 1, 2007, depending on their employment status and earnings.

The department maintains accounts to record the transactions pertaining to the CF pension plans, which comprise the Canadian Forces Superannuation Account (the “Superannuation Account”), the Canadian Forces Pension Fund Account (CFPF), the Retirement Compensation Arrangement Account (RCA), and the Reserve Force Pension Fund Account (RFPP). These accounts record transactions such as contributions, benefits payments, interest credits, refundable taxes, actuarial funding adjustments resulting from triennial reviews, and transfers to the Public Sector Pension Investment Board (PSPIB).

The value of the liabilities reported in these Consolidated Departmental Financial Statements does not include the actuarial value of the liabilities determined by the Chief Actuary of the office of the Superintendent of Financial Institutions nor the details of the investments that are held by PSPIB. Additional information on the CF pension plans, including audited financial statements, is published in the Annual Report of the Canadian Forces Pension Plans, which is available through the department. For further information on PSPIB, please visit www.pspib.ca.

The CFPF and the RFPP do not earn interest. The Pension Fund Accounts are merely flow through accounts. At year-end, the balances in the Pension Fund Accounts represent net contributions transferable to PSPIB.

The department also maintains the Regular Force Death Benefits Account, which provides life insurance to contributing members and former members of the CAF. This account records contribution, premiums, interest, and benefit payments.

The RCA records transactions for pension benefits that are provided in excess of those permitted under the *Income Tax Act*. The RCA is registered with Canada Revenue Agency (CRA) and a transfer is made annually between the RCA Account and CRA to either remit a 50 percent refundable tax in respect of the net contributions and interest credits or to be credited a reimbursement based on the net benefit payments. As at March 31, 2020, the total refundable tax transferred amounts to \$456 million (\$439 million as at March 31, 2019).

For the year ended March 31

8. Canadian Forces pension and insurance accounts (continued)

The following table provides details of the Canadian Forces pension and insurance accounts liability as presented in the Statement of Financial Position:

(in thousands of dollars)	2020	2019
Canadian Forces Pension Fund Account		
Beginning of year	110,786	164,762
Funds received and other credits	1,534,366	1,551,128
Payments and other charges	(1,056,931)	(926,237)
Transfers to the Public Sector Pension Investment Board	(462,172)	(678,867)
Canadian Forces Pension Fund Account, end of year	126,049	110,786
Reserve Force Pension Fund Account		
Beginning of year	(123,565)	(83,308)
Funds received and other credits	78,653	67,032
Payments and other charges	(91,751)	(107,289)
Reserve Force Pension Fund Account, end of year	(136,663)	(123,565)
Retirement Compensation Arrangements Account		
Beginning of year	442,574	430,166
Funds received and other credits	47,490	38,521
Payments and other charges	(29,626)	(26,113)
Retirement Compensation Arrangements Account, end of year	460,438	442,574
Regular Force Death Benefit Account		
Beginning of year	179,511	185,203
Funds received and other credits	28,098	27,977
Payments and other charges	(35,386)	(33,669)
Regular Force Death Benefit Account, end of year	172,223	179,511
Closing balance	622,047	609,306

8a. Canadian Forces Superannuation Account

The Superannuation Account was created in order to record notional transactions for service prior to April 01, 2000. The Superannuation Account does not hold any investment assets. The amount of interest credited on the account is as though net contributions were invested quarterly in 20-year Government of Canada bonds issued at prescribed rates and held to maturity.

The assets and liabilities related to the Superannuation Account are not reflected in the department's Consolidated Financial Statements as the Superannuation Account is the responsibility of the Government of Canada.

For the year ended March 31

8a. Canadian Forces Superannuation Account (continued)

Details of the Superannuation Account, including actuarial surpluses or deficiencies, can be found in the Annual Report of the Canadian Forces Pension Plans and in the Public Accounts of Canada.

The table below does not include the actuarial value of the liabilities determined by the Chief Actuary of the Office of the Superintendent of Financial Institutions, and is provided for information purposes only to disclose the transactions and account balance.

(in thousands of dollars)	2020	2019 (Restated)
Canadian Forces Superannuation Account		
Beginning of year	45,607,472	46,356,963
Funds received and other credits	1,686,631	1,791,271
Payments and other charges	(2,552,385)	(2,540,762)
Canadian Forces Superannuation Account, end of year	44,741,718	45,607,472

9. Lease obligations for tangible capital assets

The department has entered into agreements to lease certain tangible capital assets under capital leases with a cost of \$836 million and accumulated amortization of \$770 million as at March 31, 2020 (\$843 million and \$734 million respectively as at March 31, 2019). The obligations for the upcoming years include the following:

(in thousands of dollars)	Total future minimum lease payments	Imputed interest (5.26% to 7.74%)	Balance of obligations 2020	Balance of obligations 2019
Buildings	58,782	(10,241)	48,541	55,904
Aircraft	3,599	(102)	3,497	40,765
Total	62,381	(10,343)	52,038	96,669

Future minimum lease payments

(in thousands of dollars)	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26 and thereafter	Total
Buildings	10,381	7,366	7,290	7,287	7,289	19,169	58,782
Aircraft	3,599	0	0	0	0	0	3,599
Total	13,980	7,366	7,290	7,287	7,289	19,169	62,381

The department has also entered into agreements for buildings and aircraft under capital leases (refer to note 15).

For the year ended March 31

10. Employee future benefits

(a) Pension benefits

The department's Public Service 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 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 Canada's 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 01, 2013. Each group has a distinct contribution rate.

The 2019–20 expense amounts to \$202 million (\$197 million in 2018–19). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2018–19) the contributions by employees and, for Group 2 members, approximately 1.00 times (1.00 times in 2018–19) the contributions by employees.

The department'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.

The members of the Canadian Armed Forces Regular Force and eligible members of the Reserve Force participate in the Canadian Forces pension plan, which is sponsored by the Government of Canada and administered by the department. Pension benefits accrue up to a maximum 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 are indexed to inflation.

The members of the Canadian Armed Forces Reserve Force who are not eligible for participation in the Canadian Forces pension plan, may be eligible to participate in the Reserve Force pension plan, which is sponsored by the Government of Canada and administered by the department. Pension benefits accrue at a rate of 1.5 percent of pensionable earnings during the member's service, plus an additional 0.5 percent times the average of the best five consecutive years of earnings for those members who are not yet eligible for Canada/Québec Pension Plan benefits. The benefits are integrated with Canada/Québec Pension Plan benefits and are indexed to inflation.

Both the members and the department contribute to the cost of the CAF pension plans for both current and prior service. The 2019–20 expense amounts to \$1,028 million (\$1,007 million in 2018–19) which represents approximately 1.9 times (1.7 times in 2018–19) the contributions by employees.

The department is responsible for providing program management and the day-to-day administration of the CAF pension plans. The actuarial liability and actuarial surpluses or deficiencies are recognized in the Consolidated financial statements of the Government of Canada, as the sponsor of the CAF pension plans.

As a result of the actuarial funding report by the Office of the Chief Actuary, the President of Treasury Board has approved:

- Annual actuarial adjustments of \$145 million (\$145 million in 2018–19) to fund the deficit in the Canadian Forces Pension Fund Account, and \$5 million (\$5 million in 2018–19) for the Reserve Force Pension Fund Account until the deficit is funded as per the triennial funding valuation.

For more information on these adjustments, please consult the actuarial reports, available at the Office of the Chief Actuary's website (<http://www.osfi-bsif.gc.ca>)

For the year ended March 31

10. Employee future benefits (continued)

(b) Severance benefits

Severance benefits provided to the department's employees were previously based on 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. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

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

(in thousands of dollars)	2020	2019
Public Service Employees		
Accrued benefit obligation, beginning of year	84,623	85,985
Expenses for the year	10,508	9,551
Benefits paid during the year	(7,778)	(10,913)
Accrued benefit obligation, end of year	87,353	84,623
Canadian Armed Forces Members		
Accrued benefit obligation, beginning of year	547,794	568,478
Expenses for the year	73,114	54,495
Benefits paid during the year	(68,129)	(75,179)
Accrued benefit obligation, end of year	552,779	547,794
Total accrued benefit obligation, end of year	640,132	632,417

For the year ended March 31

11. Accounts receivable

The following table presents details of accounts receivable:

(in thousands of dollars)	2020	2019
Receivables – External parties	289,411	243,442
Receivables – Other government departments and agencies	136,130	166,761
	425,541	410,203
Less: allowance for doubtful accounts on receivables from external parties	48,788	52,221
Gross accounts receivable	376,753	357,982
Accounts receivable held on behalf of government	(21,687)	(8,087)
Net Receivables	355,066	349,895

12. Loans and advances

The following table presents details of loans and advances:

(in thousands of dollars)	2020	2019
Imprest accounts, standing advances and authorized loans to CAF members	50,758	49,518
Accountable advances (temporary advances)	0	6,783
Total loans and advances	50,758	56,301

13. Prepaid expenses

The following table presents details of prepaid expenses:

(in thousands of dollars)	2020	2019
Foreign Military Purchases	484,510	266,775
Sea Sparrow Missiles	218,845	79,054
Mercury Global Military Wideband Satellite Communications Project	178,049	193,532
NATO Flying Training Canada (NFTC)	57,665	59,182
Building rentals	12,820	13,892
Other purchases	16,989	7,985
Total prepaid expenses	968,878	620,420

For the year ended March 31

14. Inventory

The following table presents the details of inventory, measured at cost using the weighted moving average method except for inventory managed by contractors and not held in Defence Resource Management Information System (DRMIS), which is valued according to the cost method used by the contractors:

(in thousands of dollars)	2020	2019*
Ammunition, bombs and missiles	2,800,916	2,919,996
Uniforms and clothing	392,333	377,132
Ship spares	366,132	216,681
Contractor held inventory	340,288	369,918
Metal	322,639	314,698
Engineering, test and technical equipment and machine tools	188,595	256,457
Communication, electrical parts/accessories and informatics equipment	178,210	284,759
Medical equipment and supplies	116,897	120,890
Land equipment spares	81,039	211,009
Packaging, preserving and storing material	65,418	54,537
Fuel, petroleum and oil	49,565	41,637
Lighting, distribution, control equipment and parts	28,295	27,525
Aircraft spares	18,553	137,160
Sonobuoys, parts and accessories	17,431	142,148
Miscellaneous	152,610	130,062
Total inventories	5,118,921	5,604,609

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations and Departmental Net Financial Position is \$512 million in 2019–20 (\$551 million in 2018–19).

During 2019–20, the department delivered on its multi-year business process review on the financial classification of inventory and asset pooled items. As a result of this work, an adjustment was applied prospectively in 2019–20 to reduce inventory by \$511.0 million and reclassify a total gross book value of \$468.8 million (\$271.4 million net book value) to API (under note 15 “tangible capital assets”) with \$239.6 million recognized as an expense.

*Comparative figures have been reclassified to confirm to the current year's presentation.

For the year ended March 31

15. Tangible capital assets

The following table presents details of the cost of tangible capital assets:

(in thousands of dollars)	Balance beginning of year (Restated note 21)	Adjustments ⁽¹⁾	Acquisitions	Disposals and write-offs	Balance end of year
Land, buildings and works					
Land	86,106	0	0	0	86,106
Building	10,713,287	61,217	0	(8,251)	10,766,253
Works and infrastructure	2,768,118	27,867	44,967	(2,115)	2,838,837
	13,567,511	89,084	44,967	(10,366)	13,691,196
Machinery and equipment					
Machinery and equipment	7,061,039	(87,398)	181,408	(52,316)	7,102,733
Informatics hardware	5,786,507	97,536	117,524	(57,664)	5,943,903
Informatics software	1,097,127	1,744	2,090	0	1,100,961
Arms and weapons	6,708,424	382,884	43,453	(100,252)	7,034,509
Other equipment	147,982	(72,397)	22,864	(910)	97,539
	20,801,079	322,369	367,339	(211,142)	21,279,645
Ships, aircraft and vehicles					
Ships and boats	13,583,780	(232,051)	19,921	(527,642)	12,844,008
Aircraft	19,880,588	632,726	22,526	(63,460)	20,472,380
Non-military motor vehicles	1,143,360	(41,468)	55,720	(24,237)	1,133,375
Military vehicles	1,675,405	555,260	3,423	(37,759)	2,196,329
Other vehicles	458,968	(63,091)	8,204	(2,600)	401,481
	36,742,101	851,376	109,794	(655,698)	37,047,573
Leasehold improvements					
Leasehold improvements	125,604	0	0	(3,303)	122,301
	125,604	0	0	(3,303)	122,301
Leased tangible capital assets					
Buildings	151,356	(6,782)	0	0	144,574
Other equipment	48	0	0	0	48
Aircraft	691,286	0	0	0	691,286
	842,690	(6,782)	0	0	835,908
Assets under construction					
Buildings	1,166,709	(52,951)	511,758	0	1,625,516
Engineering works	305,619	(29,338)	46,604	0	322,885
Informatics software	75,093	(15,597)	98,909	0	158,405
Equipment	5,805,214	(1,551,939)	2,679,399	(20,378)	6,912,296
	7,352,635	(1,649,825)	3,336,670	(20,378)	9,019,102
Gross tangible capital assets	79,431,620	(393,778)	3,858,770	(900,887)	81,995,725

⁽¹⁾ Adjustments represent adjustments to asset pooled items (API), assets under construction put into use, transfers from/to the department and reclassifications.

Adjustments of tangible capital assets reported in the Consolidated Statement of Change in Departmental Net Debt and in the Consolidated Statement of Cash Flow represent the total net of adjustments (cost and amortization) less net transfers from/to other government departments.

Net of disposal and write-offs (cost and amortization) equals to loss on disposal of tangible capital asset plus proceeds from disposal of tangible capital assets reported in the Consolidated Statement of Change in Departmental Net Debt and in the Consolidated Statement of Cash Flow.

For the year ended March 31

15. Tangible capital assets (continued)

The following table presents details of the amortization of tangible capital assets and its net book value:

(in thousands of dollars)	Balance beginning of year (Restated note 21)	Adjustments	Amortization	Disposals and write-offs	Balance end of year	Net Book Value	
						2020	2019 (Restated note 21)
Land, buildings and works							
Land	0	0	0	0	0	86,106	86,106
Building	4,963,823	3,416	273,734	(7,543)	5,233,430	5,532,823	5,749,464
Works and infrastructure	1,648,877	0	76,801	(2,115)	1,723,563	1,115,274	1,119,241
	6,612,700	3,416	350,535	(9,658)	6,956,993	6,734,203	6,954,811
Machinery and equipment							
Machinery and equipment	5,285,983	(294,307)	224,509	(52,090)	5,164,095	1,938,638	1,775,056
Informatics hardware	4,838,355	(70,002)	162,437	(50,564)	4,880,226	1,063,677	948,152
Informatics software	727,223	0	39,252	0	766,475	334,486	369,904
Arms and weapons	2,960,009	112,196	243,226	(86,261)	3,229,170	3,805,339	3,748,415
Other equipment	130,564	(60,417)	8,026	(99)	78,074	19,465	17,418
	13,942,134	(312,530)	677,450	(189,014)	14,118,040	7,161,605	6,858,945
Ships, aircraft and vehicles							
Ships and boats	9,549,585	(202,992)	751,374	(519,970)	9,577,997	3,266,011	4,034,195
Aircraft	12,383,826	(226,718)	648,508	(62,672)	12,742,944	7,729,436	7,496,762
Non-military motor vehicles	742,892	(61,911)	76,156	(23,434)	733,703	399,672	400,468
Military vehicles	1,326,236	728	71,570	(37,493)	1,361,041	835,288	349,169
Other vehicles	299,561	(52,385)	19,009	(2,302)	263,883	137,598	159,407
	24,302,100	(543,278)	1,566,617	(645,871)	24,679,568	12,368,005	12,440,001
Leasehold improvements							
Leasehold improvements	51,603	0	6,243	(3,303)	54,543	67,758	74,001
	51,603	0	6,243	(3,303)	54,543	67,758	74,001
Leased tangible capital assets							
Buildings	100,152	(3,405)	6,459	0	103,206	41,368	51,204
Other equipment	48	0	0	0	48	0	0
Aircraft	633,311	0	33,535	0	666,846	24,440	57,975
	733,511	(3,405)	39,994	0	770,100	65,808	109,179
Assets under construction							
Buildings						1,625,516	1,166,709
Engineering works						322,885	305,619
Informatics software						158,405	75,093
Equipment						6,912,296	5,805,214
						9,019,102	7,352,635
Total	45,642,048	(855,797)	2,640,839	(847,846)	46,579,244	35,416,481	33,789,572

During 2019–20, the department transferred in building (net book value of \$2.5 thousand), machinery and equipment (net book value of \$17.9 thousand) from Innovation, Science and Economic Development Canada; non-military motor vehicles (net book value of \$86.6 thousand from Global Affairs Canada; and machinery and equipment (net book value of one dollar) from Environment and Climate Change Canada. Also during 2019–20, the department transferred out other vehicles (net book value of \$3 thousand) to Parks Canada Agency.

These transfers are included in the adjustments column.

During 2019–20, the department delivered on its multi-year business process review on the financial classification of inventory and asset pooled items. As a result of this work, an adjustment was applied prospectively in 2019–20 to reduce inventory by \$511.0 million (under note 14) and reclassify a total gross book value of \$468.8 million (\$271.4 million net book value) to API with \$239.6 million recognized as an expense.

For the year ended March 31

15. Tangible capital assets (continued)

The department has \$11 million (\$14 million in 2018–19) in net book value of capital assets with an original acquisition cost of \$1,027 million (\$1,589 million in 2018–19) that have been declared surplus. These assets have been written down to their net realizable value in the Consolidated Statement of Financial Position.

16. Contingent liabilities

Contingent liabilities arise in the normal course of the operations of the department and their ultimate disposition is unknown. The department is involved in contingent liabilities on claims and litigations.

Claims and litigations

Claims have been made against the department in the normal course of operations. These claims include items with pleading amounts and others for which no amount is specified. While the total amount claimed in these actions is significant, their outcomes are not determinable. The department has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made. Claims and litigations for which the outcome is not determinable and a reasonable estimate can be made by management amount to approximately \$1 million (\$74 million in 2018–19) at March 31, 2020.

17. Contractual obligations and contractual rights

(a) Contractual obligations

The nature of the department’s activities can result in some large multi-year contracts and obligations whereby the department will be obligated to make future payments when the services/goods are received. Contractual obligations over \$10 million that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2020–21	2021–22	2022–23	2023–24	2024–25 and thereafter	Total
Fixed Assets	2,401,866	1,682,677	1,063,276	616,785	831,427	6,596,031
Purchases	3,126,020	2,480,081	1,951,292	1,549,748	6,896,330	16,003,471
Total	5,527,886	4,162,758	3,014,568	2,166,533	7,727,757	22,599,502

For the year ended March 31

17. Contractual obligations and contractual rights (continued)

(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 revenue in the future years and that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26 and thereafter	Total ¹
Support services	0	0	0	0	0	31,053	31,053
Total	0	0	0	0	0	31,053	31,053

(1) The disclosed contractual rights pertain to an In Service Support Contract for helicopters that gives rise to royalties as well as consideration. In accordance with the contract, consideration will be provided in the form of a credit of \$31 million that cannot be activated prior to 2023-24 and must be used by end of 2028-29. Also, the department will earn royalties for future helicopter sales. As there are no anticipated sales as at March 31, 2020, this amount is currently reported as nil.

18. Related party transactions

The department 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 personnel¹ 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. The department did not identify any material transactions that occurred at a value different from which would have been arrived at if the parties were unrelated.

(1) For the Consolidated Departmental Financial Statements, key management personnel (KMP) are defined as the Associate Deputy Ministers, Assistant Deputy Ministers (ADM) and other executives at the EX-4 and EX-5 level, including military equivalents.

For the year ended March 31

18. Related party transactions (continued)

(a) Common services provided without charge by other government departments

During the year, the department 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 in the department's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	2020	2019
Employer's contributions to the health and dental plans paid by Treasury Board of Canada Secretariat	783,236	699,435
Accommodation provided by Public Services and Procurement Canada	67,121	76,218
Worker's compensation coverage provided by Employment and Social Development Canada	5,712	6,189
Legal services provided by Department of Justice Canada	3,149	2,994
Total	859,218	784,836

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 Consolidated Statement of Operations and Departmental Net Financial Position.

(b) Other transactions with related parties

(in thousands of dollars)	2020	2019
Expenses – other government departments and agencies	1,339,986	1,287,301
Revenues – other government departments and agencies	14,706	16,027

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

19. Segmented information

The presentation by segment is based on the Departmental Results Framework (DRF) as stated in note 1 and is based on the 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 results framework, by major object of expense and by major type of revenue. The segment results for the period are as follows:

For the year ended March 31

19. Segmented information (continued)

(in thousands of dollars)	BUN00 ⁽¹⁾	BUO00 ⁽²⁾	BUP00 ⁽³⁾	BUQ00 ⁽⁴⁾
Operating expenses				
Salary and employee benefits	486,201	5,574,183	2,472,890	268,047
Amortization	1,019	2,588	1,226	16,783
Professional and special services	46,221	902,596	336,294	188,210
Repair and maintenance	19,808	1,398,147	6,702	13,740
Expenses related to tangible assets	48,660	370,253	20,429	66,915
Materials and supplies	74,314	411,909	98,107	15,464
Transportation and communications	77,892	218,020	360,495	19,606
Other services	25,204	211,056	201,201	106,456
Accommodation	40,901	54,774	51,453	2,076
Equipment and other rentals	42,269	170,548	18,688	1,845
Utilities	1,021	1,928	583	56
Loss on disposals and write-offs and write-downs of assets	36,105	0	0	0
Bad debts	0	0	0	0
Interest on capital lease payments	0	770	326	0
Advertising, printing and related services	513	6,129	7,527	1,652
Other expenses	(23,730)	302,869	7,688	1,468
Total operating expenses	876,398	9,625,770	3,583,609	702,318
Transfer payments				
Transfers to other countries and international organizations	206,627	68	225	340
Transfers to other levels of government	0	0	0	0
Transfers to non-profit organizations	4,978	0	1,673	3,215
Transfers to individuals	0	20	1,294	0
Total transfer payments	211,605	88	3,192	3,555
Total expenses	1,088,003	9,625,858	3,586,801	705,873
Revenues				
Sale of goods and services	597	138,413	53,601	2,265
Gains on disposals of assets	43	2,785	11	4,578
Interest and gains on foreign exchange	532	4,234	93	4,258
Revenues earned on behalf of government	0	(3)	(830)	(5,998)
Other	0	17	839	8,431
Total revenues	1,172	145,446	53,714	13,534
Net cost from continuing operations	1,086,831	9,480,412	3,533,087	692,339

For the year ended March 31

19. Segmented information (continued)

(in thousands of dollars)	BUR00 ⁽⁵⁾	BUS00 ⁽⁶⁾	ISSA0 ⁽⁷⁾	2020	2019 (Restated note 21)
Operating expenses					
Salary and employee benefits	246,129	1,685,679	529,557	11,262,686	10,379,139
Amortization	2,265,474	352,913	836	2,640,839	2,680,219
Professional and special services	122,320	578,891	105,265	2,279,797	2,065,620
Repair and maintenance	15,493	254,514	40,870	1,749,274	1,609,770
Expenses related to tangible assets	178,425	161,562	13,885	860,129	1,549,182
Materials and supplies	1,643	14,563	1,055	617,055	882,170
Transportation and communications	15,137	53,171	9,983	754,304	813,541
Other services	25,155	97,089	33,355	699,516	596,592
Accommodation	3,515	29,429	84,871	267,019	242,106
Equipment and other rentals	461	13,885	1,567	249,263	284,826
Utilities	17	188,426	(281)	191,750	171,248
Loss on disposals and write-offs and write-downs of assets	0	0	0	36,105	101,994
Bad debts	0	0	(926)	(926)	4,983
Interest on capital lease payments	0	2,134	0	3,230	7,744
Advertising, printing and related services	691	997	1,359	18,868	19,835
Other expenses	117,396	202,482	379,394	987,567	1,624,254
Total operating expenses	2,991,856	3,635,735	1,200,790	22,616,476	23,033,223
Transfer payments					
Transfers to other countries and international organizations	0	0	0	207,260	199,042
Transfers to other levels of government	0	5,252	0	5,252	3,310
Transfers to non-profit organizations	0	0	0	9,866	5,215
Transfers to individuals	0	0	0	1,314	1,606
Total transfer payments	0	5,252	0	223,692	209,173
Total expenses	2,991,856	3,640,987	1,200,790	22,840,168	23,242,396
Revenues					
Sale of goods and services	10	184,474	14,800	394,160	382,874
Gains on disposals of assets	1,389	7,311	818	16,935	16,426
Interest and gains on foreign exchange	2,363	80	4,157	15,717	13,442
Revenues earned on behalf of government	766	(15,862)	(12,755)	(34,682)	(14,101)
Other	(667)	17,202	10,189	36,011	11,734
Total revenues	3,861	193,205	17,209	428,141	410,375
Net cost from continuing operations	2,987,995	3,447,782	1,183,581	22,412,027	22,832,021

(1) BUN00: Operations

(2) BUO00: Ready Forces

(3) BUP00: Defence Team

(4) BUQ00: Future Force Design

(5) BUR00: Procurement of Capabilities

(6) BUS00: Sustainable Bases, Information Technology Systems and Infrastructure

(7) ISSA0: Internal services

For the year ended March 31

20. Subsequent events

The COVID-19 pandemic resulted in governments worldwide enacting numerous emergency measures to combat the spread of the virus. These measures, which include various federal assisted programs as well as the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time. As a result, it is not possible to reliably estimate the length and severity of the impact on the department's financial position and financial results in future periods.

On April 29, 2020, a National Defence CH-148 Cyclone helicopter crashed at sea off the coast of Greece while on a training mission with NATO forces and six members of the CAF were lost. While departing from Kamloops, British Columbia as part of Operation INSPIRATION, Snowbird 11 crashed on May 17, 2020, killing one CAF member and seriously injuring another. National Defence's Airworthiness Investigative Authority continues to investigate. Consequently, it is not possible to estimate the financial impact.

21. Accounting changes

Restatement of previous year's results

In 2019-20, the department identified capital assets that had never been recorded in previous fiscal years and related adjustments to remove non-capital expenditures.

The effect of the resulting retroactive adjustments are presented below:

(in thousands of dollars)	2019 As previously stated	Effect of changes	2019 Restated
Consolidated Statement of Financial Position			
Tangible capital assets (note 15)	33,818,514	(28,942)	33,789,572
Total non-financial assets	40,043,543	(28,942)	40,014,601
Departmental net financial position	37,335,595	(28,942)	37,306,653
Consolidated Statement of Operations and Departmental Net Financial Position			
Total expenses	23,147,615	94,781	23,242,396
Net cost from continuing operations	22,737,240	94,781	22,832,021
Net cost of operations after government funding and transfers	334,057	94,781	428,838
Departmental net financial position – beginning of year	37,669,652	65,839	37,735,491
Departmental net financial position – end of year	37,335,595	(28,942)	37,306,653
Consolidated Statement of Change in Departmental Net Debt			
Net cost of operations after government funding and transfers	334,057	94,781	428,838
Amortization of tangible capital assets	(2,669,086)	(11,133)	(2,680,219)
Adjustments of tangible capital assets	(128,387)	(83,648)	(212,035)
Total change due to tangible capital assets	575,628	(94,781)	480,847
Consolidated Statement of Cash Flow			
Net cost of operations before government funding and transfers	22,737,240	94,781	22,832,021
Amortization of tangible capital assets	(2,669,086)	(11,133)	(2,680,219)
Adjustments of tangible capital assets	(128,387)	(83,648)	(212,035)

For the year ended March 31

22. Comparative information

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

1. Introduction

This document provides summary information on the measures taken by the department to maintain an effective system of Internal Control over Financial Reporting (ICFR), including information on internal control management, assessment of results and related action plans.

Detailed information on the department's authority, mandate and program activities can be found in the 2019–20 Departmental Results Report and the 2020–21 Departmental Plan.

2. Departmental system of internal control over financial reporting

2.1 Internal control management

The department 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 over Financial Management (ICFM) Framework, approved by the Deputy Minister (DM), is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- An internal control over financial management directorate under the Chief Financial Officer (CFO) to monitor the effectiveness of ICFR and ICFM across the department, including reporting on deficiencies and making recommendations to those deficiencies;
- An internal financial attestation process in support of certification by the DM and CFO, whereby senior departmental executives who report to the DM attest that they have maintained an effective system of internal control over financial reporting in their area of responsibility;
- A Defence Ethics Program which is a comprehensive values-based program put in place to meet the needs of the department and the Canadian Armed Forces (CAF),

at both the individual and the organizational levels;

- A comprehensive Fraud Risk Management program that is designed to protect the department's resources from fraud, waste and abuse through a prevention and detection framework;
- Regular monitoring of financial management practices by Internal Audit as well as the provision of related assessments of results and action plans to the DM, the Departmental Audit Committee (DAC) and departmental senior management; and
- A DAC that has oversight on the adequacy and functioning of the department's risk, management and control and governance framework and processes.

2.2 Service arrangements relevant to financial statements

The department relies on other organizations for the processing of certain transactions that are recorded in its Consolidated Departmental Financial Statements as follows:

(i) Common Arrangements:

- Public Services and Procurement Canada (PSPC) centrally administers the payments of civilian salaries, pension services to both civilian and military members, and the procurement of goods and services as per the delegation of authority of other government organizations. PSPC also administers the Receiver General Central Systems used to issue cheques on behalf of the department;
- The Treasury Board of Canada Secretariat provides information used to calculate various accruals and allowances, such as the accrued severance liability.
- Shared Services Canada provides information technology infrastructure services and support to the department, such as but not limited to, email, data centres and network services; and
- The Department of Justice provides legal services to the department.

(ii) Specific Arrangements:

- Defence Construction Canada provides contracting, construction contract management and payment processing services as well as infrastructure support to the department in accordance with the Memorandum of Understanding between the two organizations and as per the department’s Delegation of Authorities instrument; and
- The Office of the Superintendent of Financial institutions provides the department with the accrued severance liability amount for the CAF.

3. Departmental assessment results during fiscal year 2019–20

The department is one of the largest and most complex organizations in the government of Canada and is managed in a highly decentralized operating and financial environment. There are three separate payroll systems, two of which are currently undergoing major transformations, which annually expend more than \$10 billion in salaries and benefits to more than 100,000 Regular and Reserve Force military members as well as civilian employees. Furthermore, there are two major Enterprise Resource Planning systems, the Defence Resource Management Information System (DRMIS) and the Human Resource Management System (HRMS), which support the business and extend to every operational area of the department. ICFR ongoing monitoring assessments involve the review and testing of previously identified key controls within business processes to confirm that the design of these controls continue to address key financial risks and that these controls continue to operate effectively.

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

Progress during fiscal year 2019–20	
Previous year’s rotational ongoing monitoring plan for current year	Status
IT General Controls (ITGCs)	In progress
Entity Level Control (ELCs)	In progress
Inventory	Deferred to fiscal year 2020–21
Capital Assets	Completed as planned; remediation action plans under development
Accounts Receivable	Completed as planned
Procure to Pay	Completed as planned; remediation action plans under development

The key findings from the current year’s assessment activities are summarized below:

3.1 New or significantly amended key controls

The ongoing challenges presented by the government pay system, Phoenix, continue to require changes to internal pay processes and controls; as a result, the implementation of these controls and associated quality assurance programs continue. A full assessment of the civilian payroll process will be conducted in fiscal year 2020–21 as per the department’s rotational ongoing monitoring plan.

The COVID–19 global pandemic introduced unique challenges to the department including the activation of the departmental Business Continuity Plan (BCP) in mid–March. Given the limited number of employees with network access and the transition to a virtual operating environment, the processes and controls related primarily to the financial reporting and close business process were impacted. For example, after BCP was initiated, the department implemented electronic signatures in certain areas to facilitate financial reporting and close. As a result, the department’s annual ICFR risk assessment accounted for this factor and has updated the three year ICFR workplan to assess the financial reporting and close business process in fiscal year 2020–21.

3.2 Ongoing monitoring program

Ongoing monitoring assessments are comprised of two components: confirming controls continue to mitigate the intended risks (design effectiveness) and confirming that the controls are operating as intended (operating effectiveness).

As part of its rotational ongoing monitoring plan, the department’s risk based strategy related to ITGC assessments was updated including the creation of a dedicated team of the department’s resources. As a result, certain fiscal year 2019–20 assessments remained in progress at year–end. The initial design effectiveness assessments of the Central Computerized Pay System (CCPS) and Guardian, the payroll and human resource management systems for over 70,000 regular force military members, were substantially complete in fiscal year 2019–20 and will be finalized in fiscal year 2020–21. The ELC assessment focused on executive level ICFR process and control owner roles and responsibilities, operationalizing executive level ICFR governance, and the implementation of a risk–based ICFR strategy. The balance of the ELC assessment will be completed in fiscal year 2020–21.

The department completed its assessments of accounts receivable, capital assets, and procure to pay. The inventory sub–process of stocktaking was deferred until fiscal year 2020–21 when the entire inventory business process will be assessed. No new control gaps were identified as a result of the monitoring. However, two common themes emerged: (a) automated controls were found to be more effective than manual controls, and, (b) lack of consistent documentation related to the performance of certain controls. Management action plans are being developed to address the control gaps identified.

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

The department's rotational ongoing monitoring plan for the next three fiscal years, based on an annual ICFM scoping and risk assessment, is shown in the following table.

Rotational Ongoing Monitoring Plan			
Key Control Areas	2020-21	2021-22	2022-23
Entity Level Controls (ELCs)	Yes	No	No
IT General Controls (ITGCs)	Yes	Yes	Yes
Financial Reporting and Close	Yes	No	Yes
Procure to Payment	No	Yes	No
Inventory	Yes	No	Yes
Capital Assets	No	Yes	No
Real Property	No	Yes	No
Civilian Pay	Yes	No	No
Military Regular Force Pay	No	Yes	No
Military Reserve Force Pay	No	Yes	No

Accounting changes (note 21).....	32
Accounts payable and accrued liabilities (note 4).....	13
Accounts receivable (note 11)	23
Authority and objectives (note 1).....	6
Canadian Forces pension and insurance accounts (note 8)	18
Comparative information (note 22)	33
Contingent liabilities (note 16)	27
Contractual obligations and contractual rights (note 17).....	27
Deferred revenue (note 7)	17
Deposits and trust accounts (note 6).....	17
Employee future benefits (note 10)	21
Environmental liabilities (note 5)	14
Inventory (note 14).....	24
Lease obligations for tangible capital assets (note 9)	20
Loans and advances (note 12).....	23
Parliamentary authorities (note 3).....	12
Prepaid expenses (note 13)	23
Related party transactions (note 18)	28
Segmented information (note 19).....	29
Subsequent events (note 20).....	32
Summary of significant accounting policies (note 2).....	7
Tangible capital assets (note 15).....	25