
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, 2019**

Consolidated Financial Statements (Unaudited) for the year ended March 31, 2019.

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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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, 2019, 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, 2019 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
August 27, 2019

Original signed by

Graham Flack
Deputy Minister
Employment and Social Development Canada

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

	2019	2018
	(in thousands of dollars)	
Financial assets		
Accounts receivable and advances (note 4)	\$ 5,405,380	\$ 4,953,991
Loans receivable (note 5)	17,387,541	16,207,110
Total gross financial assets	22,792,921	21,161,101
Financial assets held on behalf of Government		
Loans receivable (note 5)	(204,724)	(187,874)
Total net financial assets	22,588,197	20,973,227
Liabilities		
Due to Consolidated Revenue Fund	639,225	577,854
Due to Canada Pension Plan (note 6)	163,237	31,864
Accounts payable and accrued liabilities (note 7)	2,199,113	2,172,627
Vacation pay and compensatory leave	75,896	80,326
Designated Amount Fund - Trust Account (note 8)	18,437	82,978
Government Annuities Account (note 9)	122,943	134,646
Employee future benefits (note 10)	72,945	77,421
Total net liabilities	3,291,796	3,157,716
Departmental net financial asset	19,296,401	17,815,511
Non-financial assets		
Prepaid expenses	8,012	3,058
Tangible capital assets (note 11)	246,429	226,612
Total non-financial assets	254,441	229,670
Departmental net financial position (note 12)	\$ 19,550,842	\$ 18,045,181

Contractual obligations (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
August 27, 2019

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

	2019	2019	2018
	Planned Results	(in thousands of dollars)	
Expenses			
Pensions and Benefits	54,824,977	54,408,586	51,575,181
Learning, Skills Development and Employment	27,533,304	26,180,166	26,813,917
Internal Services	843,878	865,412	926,142
Social Development	711,454	727,519	696,601
Information Delivery and Services for Other Departments	261,636	211,112	247,361
Working Conditions and Workplace Relations	138,645	181,844	133,079
Expenses incurred on behalf of the Government	(16,814)	(43,438)	(45,852)
Total expenses	84,297,080	82,531,201	80,346,429
Revenues			
Employment Insurance (note 12)	22,361,200	22,781,644	21,613,969
Interest on loans receivable	722,305	855,042	733,473
Recovery of CPP administration costs	369,588	373,772	364,920
Recovery of Passport service delivery costs	227,888	169,392	196,568
Other	47,003	82,919	62,921
Revenues earned on behalf of Government	(828,034)	(977,934)	(845,105)
Total revenues	22,899,950	23,284,835	22,126,746
Net cost of operations before government funding and transfers	61,397,130	59,246,366	58,219,683
Government funding and transfers			
Net cash provided by Government		60,751,215	59,382,765
Change in due to the Consolidated Revenue Fund		(61,371)	(97,058)
Services provided without charge by other government departments (note 16)		61,932	68,233
Transfer of the transition payments for implementing salary payments in arrears		(4)	(13)
Transfer of assets from (to) other government departments		255	43
Net revenue (cost) of operations after government funding and transfers		1,505,661	1,134,287
Departmental net financial position - Beginning of year		18,045,181	16,910,894
Departmental net financial position - End of period		\$ 19,550,842	\$ 18,045,181

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 Asset
(Unaudited)
For the year ended March 31

	2019	2018
	(in thousands of dollars)	
Net revenue (cost) of operations after government funding and transfers	\$ 1,505,661	\$ 1,134,287
Change due to tangible capital assets		
Acquisition of tangible capital assets	(90,261)	(62,830)
Amortization of tangible capital assets	70,331	73,519
Proceeds from disposal of tangible capital assets	65	39
Net loss on disposal of tangible capital assets including adjustments	48	43
Total change due to tangible capital assets	(19,817)	10,771
Change due to prepaid expenses	(4,954)	5,943
Net increase in departmental net financial asset	1,480,890	1,151,001
Departmental net financial asset - Beginning of year	17,815,511	16,664,510
Departmental net financial asset - End of period	\$ 19,296,401	\$ 17,815,511

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

	2019	2018
	(in thousands of dollars)	
Operating activities		
Net cost of operations before government funding and transfers	\$ 59,246,366	\$ 58,219,683
Non-cash items:		
Amortization of tangible capital assets (note 11)	(70,331)	(73,519)
Net loss on disposal of tangible capital assets including adjustments	(48)	(43)
Services provided without charge by other government departments (note 16)	(61,932)	(68,233)
Transition payments for implementing salary payments in arrears	4	13
Transfer of net financial assets and liabilities to or from other government departments	(255)	(43)
Variations in Consolidated Statement of Financial Position		
Increase in accounts receivable and advances	451,389	634,218
Increase in loans receivable	1,163,581	915,409
Increase (decrease) in prepaid expenses	4,954	(5,943)
Decrease (increase) in due to Canada Pension Plan	(131,373)	73,644
Increase in accounts payable and accrued liabilities	(26,486)	(348,287)
Decrease (increase) in vacation pay and compensatory leave	4,430	(8,117)
Decrease (increase) in the designated amount fund - Trust Account	64,541	(581)
Decrease (increase) in Government Annuities Account	11,703	(14,159)
Decrease (increase) in employee future benefits	4,476	(4,068)
Cash used in operating activities	60,661,019	59,319,974
Capital investing activities		
Acquisitions of tangible capital assets (note 11)	90,261	62,830
Proceeds from disposal of tangible capital assets	(65)	(39)
Cash used in capital investing activities	90,196	62,791
Net cash provided by Government of Canada	\$ 60,751,215	\$ 59,382,765

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* and, where applicable, related Regulations.

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

Social Development

Increase inclusion and opportunities for participation of Canadians 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.

Working Conditions and Workplace Relations

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

Information Delivery and Services for Other Departments

Provide information to the public on the programs of the Government of Canada and the Department, and provide services on behalf of government departments.

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 service categories that support program delivery in the organization, regardless of the Internal Services delivery model in a department. The 10 service categories are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Materiel Services; and Acquisition 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 the Government'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 2018-2019 *Departmental Plan*. Planned results are not presented in the "Government funding and transfers" section of the Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated Statement of Change in Departmental Net Financial Asset because these amounts were not included in the 2018-2019 *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 Government.

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 recoded 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 due 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 to the CRF represent the net amount of cash that have been credited to authorities used, but were not collected and deposited to the CRF at year-end.

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

- 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.
- Interest revenues on loans receivable are recognized in the year they are earned. Interest revenues are not recorded on impaired loans.

Employment and Social Development Canada

Notes to the Consolidated Financial Statements (*Unaudited*)

For the year ended March 31

- 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 earned on behalf of government are non-respendable and 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. Therefore, those revenues are presented in reduction of the entity'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 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 and leasehold improvements 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, assets located on Indian reserves and museum collections.

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) 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.

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

	2019	2018
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	\$ 59,246,366	\$ 58,219,683
Adjustments for items affecting net cost of operations but not affecting authorities:		
Bad debt expense (excluding EI bad debts)	(169,419)	(173,973)
Refund of programs and prior years' expenditures	94,552	27,222
Revenue not available for spending	116,296	120,174
Allowance expense for the Repayment Assistance Plan program of Canada Student Loans	(259,074)	(315,928)
Amortization of tangible capital assets (note 11)	(70,331)	(73,519)
Decrease (increase) in employee future benefits	4,476	(4,068)
Net EIO Account transactions (note 12)	1,964,289	(47,997)
Increase in accounts payable and accrued liabilities not charged to authorities	(71,124)	(38,988)
Services provided without charge by other government departments (note 16)	(61,932)	(68,233)
Other adjustments	(560)	(81,766)
Total items affecting net cost of operations but not affecting authorities	1,547,173	(657,076)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Net Canada Student Loans disbursed	1,246,841	1,137,219
Net Canada Apprentice Loans disbursed	39,388	49,501
Canada Student Loans debt write-offs	162,154	200,039
Acquisition of tangible capital assets (note 11)	90,261	62,830
Canada Student Loans forgiveness	99,912	85,941
Transition payments for implementing salary payments in arrears	4	13
Other adjustments	57,029	59,905
Total items not affecting net cost of operations but affecting authorities	1,695,589	1,595,448
Current year authorities used	\$ 62,489,128	\$ 59,158,055

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

(b) Authorities provided and used

	2019	2018
	(in thousands of dollars)	
Authorities provided:		
Vote 1 - Operating expenditures	\$ 791,337	\$ 788,262
Vote 5 - Grants and contributions	2,606,474	2,474,224
Vote 10 - Debt write-off - Canada Student Loans	163,501	203,471
Statutory amounts	59,127,487	55,795,363
Less:		
Authorities available for future years	(1,040)	(1,065)
Lapsed authorities:		
Operating expenditures	(22,996)	(20,508)
Grants and contributions	(174,288)	(78,259)
Debt write-off - Canada Student Loans	(1,347)	(3,432)
Statutory amounts	-	(1)
Current year authorities used	\$ 62,489,128	\$ 59,158,055

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:

	2019	2018
	(in thousands of dollars)	
Receivables - Other government departments and agencies		
EI premiums receivable from CRA	\$ 2,120,052	\$ 1,857,496
EI and OAS benefit repayments receivable from CRA	2,329,279	2,199,588
Other	55,517	55,114
	4,504,848	4,112,198
Receivables and advances - External parties		
EI and OAS overpayments and penalties to be recovered	1,243,198	1,112,896
Other	373,827	342,863
	1,617,025	1,455,759
Subtotal accounts receivable and advances	6,121,873	5,567,957
Allowance for doubtful accounts on receivables from external parties	(716,493)	(613,966)
Net accounts receivable and advances	\$ 5,405,380	\$ 4,953,991

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	2019 Total	2018 Total
(in thousands of dollars)				
Loans receivable				
Gross loans - Beginning of year	\$ 19,959,539	\$ 197,868	\$ 20,157,407	\$ 18,983,497
New loans and repurchases	3,656,590	56,242	3,712,832	3,414,809
Reimbursements	(2,167,947)	(16,854)	(2,184,801)	(1,943,035)
Loan write-offs and forgiveness	(284,308)	-	(284,308)	(297,864)
Gross loans - End of year	21,163,874	237,256	21,401,130	20,157,407
Unamortized discount	(44,792)	-	(44,792)	(50,317)
Allowance for bad debts	(4,148,292)	(19,073)	(4,167,365)	(4,074,130)
Net loans	16,970,790	218,183	17,188,973	16,032,960
Accrued interest				
Gross accrued interest - Beginning of year	452,223	526	452,749	421,443
New interest	779,197	3,165	782,362	649,886
Reimbursements	(427,330)	(1,828)	(429,158)	(351,641)
Interest write-offs and forgiveness	(292,782)	(54)	(292,836)	(266,944)
Gross accrued interest - End of year	511,308	1,809	513,117	452,744
Unamortized discount	(13,449)	-	(13,449)	(18,302)
Allowance for bad debts	(301,100)	-	(301,100)	(260,292)
Net accrued interest	196,759	1,809	198,568	174,150
Total net loans and net accrued interest	17,167,549	219,992	17,387,541	16,207,110
Loans and accrued interest held on behalf of Government	(202,915)	(1,809)	(204,724)	(187,874)
Total Loans receivable	\$ 16,964,634	\$ 218,183	\$ 17,182,817	\$ 16,019,236

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	2019 Total	2018 Total
(in thousands of dollars)				
Loans in good standing	\$ 20,778,584	\$ 237,256	\$ 21,015,840	\$ 19,806,056
Impaired Loans	385,290	-	385,290	351,351
Gross Loans	\$ 21,163,874	\$ 237,256	\$ 21,401,130	\$ 20,157,407

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, 2019, the bad debt and RAP allowance rates on Direct Loans were established as follow:

Status of the loans	Allowance rate as at March 31, 2019	Allowance rate as at March 31, 2018
Bad debt allowance		
Loans in-study	7.1%	7.9%
Loans in-repayment	3.5%	3.9%
Loans in-default	76.5%	77.3%
RAP allowance		
Loans in-study	5.2%	5.3%
Loans in-repayment	1.9%	1.3%
Loans in RAP	23.8%	22.2%

Source: Actuarial Report on the Canadian Student Loan Program, as at July 31, 2018.

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 \$24 billion. The total amount of direct loans and outstanding risk-shared loans as at March 31, 2019 amounted to \$21,097.0 million (\$19,862.0 million in 2018).

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 administered 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, 2019, the bad debt allowance rate was established at 5.10% (5.94% in 2018) and the RAP allowance rate was established at 3.00% (3.11% in 2018), resulting in an allowance of \$19.1 million (\$18.0 million in 2018).

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, 2019 amounted to \$237.2 million (\$197.9 million in 2018).

Interest and repayment terms

Under these two programs, no security is received from the borrowers and the loans bear interest at either a variable rate (prime rate + 2.5%) or a fixed rate (prime rate + 5.0%). 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, 2019, the total bad debt expense on loans receivable amounted to \$236.3 million (\$252.5 million in 2018).

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.

	2019	2018
	(in thousands of dollars)	
Due to Canada Pension Plan - Beginning of year	\$ 31,864	\$ 105,508
Receipts and other credits	81,061,038	77,313,637
Payments and other charges	(80,929,665)	(77,387,281)
Due to Canada Pension Plan - End of year	\$ 163,237	\$ 31,864

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:

	2019	2018
	(in thousands of dollars)	
Accounts payable - Other government departments and agencies		
Income taxes payable to CRA	\$ 27,832	\$ 232,562
Universal Child Care Benefits payable to CRA	103,159	115,866
Other	306,214	80,530
	437,205	428,958
Accounts payable - External parties		
EI benefits payable to individuals	784,384	781,323
OAS and Guaranteed Income Supplement benefits payable to individuals	78,339	66,080
Other	354,139	406,107
	1,216,862	1,253,510
Accrued liabilities	218,579	211,587
Allowance for alternative payments for non-participating provinces to Canada Student and Apprentice Loans	326,467	278,572
Total accounts payable and accrued liabilities	\$ 2,199,113	\$ 2,172,627

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.

	2019	2018
	(in thousands of dollars)	
Designated Amount Fund - Beginning of year	\$ 82,977	\$ 82,397
Interest credited to the Trust account	361	646
Payments and other charges	(64,901)	(66)
Designated Amount Fund - End of year	\$ 18,437	\$ 82,977

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.

	2019	2018
	(in thousands of dollars)	
Government Annuities Account - Beginning of year	\$ 107,780	\$ 120,487
Receipts and other credits	6,879	7,733
Payments and other charges	(18,357)	(20,440)
Government Annuities Account - Subtotal	96,302	107,780
Allowance for pension adjustment- beginning of year	26,866	-
Allowance for pension adjustment- for the year	(225)	26,866
Allowance for pension adjustment- end of year	26,641	26,866
Government Annuities Account - End of year	\$ 122,943	\$ 134,646

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 2019 expense amounts to \$172.7 million (\$171.3 million in 2018). For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2018) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2018) 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 the 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, 2019, 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:

	2019	2018
	(in thousands of dollars)	
Accrued benefit obligation - Beginning of year	\$ 77,421	\$ 73,353
Expense for the year	3,184	9,728
Benefits paid during the year	(7,660)	(5,660)
Accrued benefit obligation - End of year	\$ 72,945	\$ 77,421

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

11. 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	2019	2018
Machinery & equipment	\$ 1,125	\$ -	\$ 46	\$ (168)	\$ 1,003	\$ 1,060	\$ 33	\$ 33	\$ (168)	\$ 958	\$ 45	\$ 65
Computer hardware	100	-	-	(10)	90	15	19	-	(1)	33	57	85
Computer software	468,590	-	13,957	(10,848)	471,699	355,532	55,671	-	(10,765)	400,438	71,261	113,058
Other equipment & furniture	3,867	-	64	(427)	3,504	3,500	347	25	(425)	3,447	57	367
Vehicles	2,374	319	30	(273)	2,450	1,544	306	14	(273)	1,591	859	830
Assets under construction	57,233	89,942	(13,957)	(62)	133,156	-	-	-	-	-	133,156	57,233
Leasehold improvements	320,317	-	-	(1,551)	318,766	265,343	13,955	-	(1,526)	277,772	40,994	54,974
	\$ 853,606	\$ 90,261	\$ 140	\$ (13,339)	\$ 930,668	\$ 626,994	\$ 70,331	\$ 72	\$ (13,158)	\$ 684,239	\$ 246,429	\$ 226,612

(1) Adjustments include assets under construction of \$13,957,000 that were transferred to the other categories upon completion of the assets.

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.

	2019	2018
	(in thousands of dollars)	
EIO Account - Restricted		
Balance - Beginning of year - Restricted	\$ 2,951,358	\$ 2,999,355
Revenues		
EI premiums	22,698,401	21,532,975
Penalties and interest on EI receivables	83,243	80,994
	22,781,644	21,613,969
Expenses		
Benefits and support measures		
Income benefits	16,866,292	17,855,630
Transfers to provinces and territories related to Labour Market Development Agreements	2,170,960	2,048,593
Support measures	136,960	119,218
Benefits repayments from higher income claimants	(286,247)	(308,560)
Administration costs	1,830,404	1,877,823
Bad debts	98,986	69,262
	20,817,355	21,661,966
Net EIO Account transactions	1,964,289	(47,997)
Balance - End of year - Restricted	4,915,647	2,951,358
Unrestricted	14,635,195	15,093,823
Departmental net financial position - End of period	\$ 19,550,842	\$ 18,045,181

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, 2019, these undetected overpayments and underpayments are estimated to be \$605.8 million (\$677.5 million as at March 31, 2018) and \$135.3 million (\$96.6 million as at March 31, 2018) respectively for EI claims and \$1171.7 million (\$1040.7 million as at March 31, 2018) and \$148.6 million (\$116.3 million as at March 31, 2018) 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.

14. 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:

	2020	2021	2022	2023	2024 and thereafter	Total
	(in thousands of dollars)					
Labour Market Development						
Agreements	2,327,740	-	-	-	-	\$ 2,327,740
Other transfer payments	1,829,136	1,152,542	1,016,957	979,260	564,491	\$ 5,542,386
Operating and Maintenance	13,203	-	-	-	-	\$ 13,203
Total	4,170,079	1,152,542	1,016,957	979,260	564,491	\$ 7,883,329

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 2021 cannot be reasonably estimated.

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.

A judicial review application to the Federal Court and a policy grievance were filed by the bargaining agent with respect to ESDC decision not to pay retroactivity for certain employees. This may result in administration costs being charged to the Account. The judicial review application and the grievance are seeking salary retroactivity following the classification grievance committee report and recommendation and it's application. The outcome of this claim is not determinable at this time.

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:

	2019	2018
	(in thousands of dollars)	
Employers' contribution to the health and dental insurance plans	\$ 57,898	\$ 64,162
Legal services	4,034	4,071
Total	\$ 61,932	\$ 68,233

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 \$24.5 million in 2019 (\$23.7 million in 2018).

(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:

	2019	2018
	(in thousands of dollars)	
Expenses - Other government departments, agencies and Crown corporations	715,062	706,249
Revenues - Other government departments, agencies and Crown corporations	189,772	211,928

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

(in thousands of dollars)

Presentation by segmented information 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 by program activity, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

	Pensions and Benefits	Learning, Skills Development and Employment	Social Development	Internal Services	Information Delivery and Services for Other Departments	Working Conditions and Workplace Relations	2019 Total	2018 Total
Benefits and transfer payments								
Individuals	\$ 53,879,617	\$ 3,269,602	\$ 17,403	\$ -	\$ -	\$ 2,023	\$ 57,168,645	\$ 54,191,335
El benefits and support measures	-	18,887,965	-	-	-	-	18,887,965	19,714,880
Other	-	2,169,967	664,291	-	-	3,998	2,838,256	2,667,076
	53,879,617	24,327,534	681,694	-	-	6,021	78,894,866	76,573,291
Operating expenses								
Salaries and benefits	412,778	920,921	44,727	452,846	152,973	94,723	2,078,968	2,184,280
Professional and special services	18,522	370,841	1,886	252,176	27,821	10,615	681,861	678,560
Bad debts	10,901	236,321	(2,724)	1,222	-	65,200	310,920	287,329
Accommodation and rentals	82	5,609	78	207,547	1,477	576	215,369	226,544
El administration costs charged by CRA	-	212,755	-	-	-	-	212,755	214,534
Amortization	10,189	18,524	6	40,962	501	149	70,331	73,519
Transportation	17,085	27,636	1,168	10,928	1,759	2,687	61,263	62,989
Other	59,412	60,025	684	(100,269)	26,581	1,873	48,306	91,235
Expenses incurred on behalf of Government	-	(43,438)	-	-	-	-	(43,438)	(45,852)
	528,969	1,809,194	45,825	865,412	211,112	175,823	3,636,335	3,773,138
	54,408,586	26,136,728	727,519	865,412	211,112	181,844	82,531,201	80,346,429
Revenues								
Employment Insurance (note 12)	-	22,781,644	-	-	-	-	22,781,644	21,613,969
Interest on loans receivable	-	855,042	-	-	-	-	855,042	733,473
Recovery of CPP administration costs	265,894	-	-	107,878	-	-	373,772	364,920
Recovery of Passport service delivery costs	-	-	-	19,075	150,317	-	169,392	196,568
Other	35	70,291	11	4,191	5,471	2,920	82,919	62,921
Revenues earned on behalf of Government	(26,473)	(912,981)	(11)	(8,631)	(27,544)	(2,294)	(977,934)	(845,105)
	239,456	22,793,996	-	122,513	128,244	626	23,284,835	22,126,746
Net cost (revenue) of operations	54,169,130	3,342,732	727,519	742,899	82,868	181,218	59,246,366	58,219,683

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

18. 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, 2019

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, 2019, 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 November 2017. 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;
- 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 2018-2019

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

In 2018-2019, ESDC completed or substantially completed its assessment of the following key control areas based on its 2016-2017 ongoing risk-based monitoring plan:

- Entity Level Controls (Control Activities, Information and Communication, and Control Monitoring Components);
- IT General Controls (ITGC) (Year two of a three year cycle);
- Canada Student Loans; and
- Planning and Budgeting.

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 – Control Activities, Information & Communication, and Control Monitoring Components

The assessment of the Control Activities, Information & Communication, and Control Monitoring 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). As a result of the assessment, some key recommendations included but not limited to:

- Ensure that departmental financial policies are reviewed and updated in a timely manner, and
- Continue to enhance the documentation of the departmental FAA Section 33 Framework

Management responses and action plans (MRAPs) will be prepared by the process owners with a view to strengthen control and progress against these plans will be tracked during 2019-2020.

IT General Controls

The year two ongoing monitoring of ITGCs was conducted as part of a three year cycle, which assesses SAP and 16 feeder systems. As a result of the assessment, some key recommendations are noted in all four main control pillars evaluated: access to programs and data, program changes, computer operations, and program development.

MRAPs will be prepared by the process owners with a view to strengthen control and progress against these plans will be tracked during 2019-2020 as part of the year 3 ongoing monitoring of ITGCs.

Canada Student Loans

The assessment of the Canada Student Loans Program process included the following 13 sub-processes: disbursements – direct loans, integrated loans, and Canada Apprenticeship loans, alternative payments and special payments for non-integrated provinces, monthly financial information schedule (MFIS) and Production Edulinx (PEDU) reports, establishment of accounts – return to government (RTG), DARS interest calculation, direct loans bad debts provision (interest portion only), direct loans and CAL bad debts provision (principle portion only), recording monthly DARS transactions in SAP, automated receipt and deposit (ARADS) payments, CRA set-off payments, write-offs, annual external audit on the service provider, and receipt of Canada Student Loan payments. As a result of the assessment, some key recommendations included but were not limited to:

- Ensure access to SAP functionality is restricted and a review of specific roles and access privileges is performed periodically,
- Review access rights within DARS,
- Enforce segregation of duties between entry and approval of journal voucher entries in SAP for the quarterly preparation of Direct Loan Bad Debt Interest provisions and for the monthly process of recording DARS transactions for direct loans in default status into SAP, and
- Ensure access to the Cognos reporting tool for DARS is restricted.

MRAPs will be prepared by the process owners with a view to strengthen control and progress against these plans will be tracked during 2019-2020.

Planning and Budgeting

The assessment of the procure to payment business process included the following 13 sub-processes; Annual Reference Level Update (ARLU), interim and main estimates, interim supply – cash, full supply – cash, Departmental Plan, Treasury Board submissions, supplementary estimates (SUPPS A and B), financial allotment report, base derivation, budget allocation and distribution – operating funds and grants and contributions, forecasting, budget transfers – operating budgets and grants and contributions, and budget carry forwards.

As a result of the assessment, some key recommendations included but were not limited to:

- Ensure access to SAP functionality is restricted and a review of specific roles and access privileges is performed periodically,
- Review the access rights to input forecast information in SAP periodically,
- Strengthen segregation of duties between entry and approval of budget transfer entries in SAP.

MRAPs will be prepared by the process owners with a view to strengthen control and progress against these plans will be tracked during 2019-2020.

4 Departmental action plan

4.1 Progress during fiscal year 2018-2019

During 2018-2019, 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 Control Activities, Information and Communication, and Control Monitoring Components.• Remedial plans will be tracked during 2019-2020.
IT General Controls under departmental management	<ul style="list-style-type: none">• The year-two ongoing monitoring assessment of operating effectiveness was completed as planned.• Remedial plans are to be finalized and will be tracked as part of the ongoing monitoring assessment testing to be conducted during 2019-2020
Canada Student Loans	<ul style="list-style-type: none">• Ongoing monitoring assessment of operating effectiveness was completed as planned.• Remedial plans will be tracked during 2019-2020.
Planning and Budgeting	<ul style="list-style-type: none">• Ongoing monitoring assessment of operating effectiveness was completed as planned.• Remedial plans will be tracked during 2019-2020.

4.2 Action plan for the next fiscal year and subsequent years

ESDC's rotational ongoing monitoring plan over the next three years is shown in the following table. 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 Monitoring Plan			
Key Control Areas	2019-2020	2020-2021	2021-2022
Entity Level Controls ¹	X	X	X
IT General Computer Controls ²	X	X	X
Employment Insurance	X		
Old Age Security	X		
Pay Administration	X		
Grants & Contributions		X	
Financial Close & Reporting		X	
Procure to Payment		X	
Canada Student Loans Program			X
Planning & Budgeting			X
Revenue, Receivables and Receipts			X

¹ A portion of Entity Level Controls will be monitored annually. Over a three year cycle, each component will be revisited.

² A portion of IT General Controls will be monitored annually, based on risk. Over a three year cycle, all in scope IT systems will be revisited.