



CONSOLIDATED DEPARTMENTAL FINANCIAL STATEMENTS

2014–2015

[UNAUDITED]



National
Defence

Défense
nationale

Canada



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, 2015, and all information contained in these statements rests with the management of Department of National Defence (DND). These financial statements have been prepared by management using 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 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 DND's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the DND's *Departmental Performance 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 DND; 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 and adjust as required key risks and associated key controls.

A risk-based assessment of the system of ICFR for the year ended March 31, 2015 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

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

The financial statements of DND have not been audited.

// Signed by //

John Forster
Deputy Minister
Ottawa, Canada

Date: August 21, 2015

// Signed by //

C. Rochette, CPA, CMA
Chief Financial Officer



CONSOLIDATED STATEMENT OF FINANCIAL POSITION [UNAUDITED]

As at March 31

| (in thousands of dollars) | 2015 | 2014 (Restated note 21) |
|--|-------------------|-------------------------------|
| Liabilities | | |
| Accounts payable and accrued liabilities (note 4) | 2,340,067 | 2,400,290 |
| Vacation pay and compensatory leave | 183,056 | 192,682 |
| Deposits and trust accounts (note 5) | 5,793 | 3,345 |
| Deferred revenue (note 6) | 10,329 | 13,780 |
| Canadian Forces pension and insurance accounts (note 7) | 46,860,606 | 47,102,778 |
| Lease obligations for tangible capital assets (note 8) | 371,676 | 425,006 |
| Employee future benefits (note 9) | 975,506 | 1,008,732 |
| Remediation liabilities (note 15) | 425,388 | 462,424 |
| Future asset restoration liabilities (note 15) | 1,313 | 1,989 |
| Total liabilities | 51,173,734 | 51,611,026 |
| Financial assets | | |
| Due from Consolidated Revenue Fund | 48,735,962 | 48,821,701 |
| Accounts receivables (note 10) | 239,479 | 888,821 |
| Loans and advances (note 11) | 36,240 | 40,875 |
| Total gross financial assets | 49,011,681 | 49,751,397 |
| Financial assets held on behalf of Government | | |
| Accounts receivables (note 10) | (7,434) | (2,703) |
| Total financial assets held on behalf of Government | (7,434) | (2,703) |
| Total net financial assets | 49,004,247 | 49,748,694 |
| Departmental net debt | 2,169,487 | 1,862,332 |
| Non-financial assets | | |
| Prepaid expenses (note 12) | 777,819 | 623,841 |
| Inventories (note 13) | 6,327,022 | 6,429,769 |
| Tangible capital assets (note 14) | 32,338,247 | 32,323,131 |
| Total non-financial assets | 39,443,088 | 39,376,741 |
| Departmental net financial position | 37,273,601 | 37,514,409 |

Contingent liabilities (note 16)
Contractual obligations (note 17)

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

// Signed by //

John Forster
Deputy Minister
Ottawa, Canada

// Signed by //

C. Rochette, CPA, CMA
Chief Financial Officer

Date: August 21, 2015



CONSOLIDATED STATEMENT OF OPERATIONS AND DEPARTMENTAL NET FINANCIAL POSITION [UNAUDITED]

For the year ended March 31

| (in thousands of dollars) | 2015 Planned Results | 2015 | 2014* (Restated note 21) |
|---|-------------------------|-------------------|--------------------------------|
| Expenses | | | |
| Defence Combat and Support Operations | 1,919,627 | 1,417,712 | 1,427,354 |
| Defence Services and Contributions to Government | 450,784 | 539,824 | 615,229 |
| Defence Ready Force Element Production | 3,230,392 | 3,396,504 | 3,503,078 |
| Defence Capability Element Production | 12,001,525 | 12,907,337 | 11,708,046 |
| Defence Capability Development and Research | 418,067 | 477,030 | 508,515 |
| Internal Services | 540,749 | 416,475 | 633,164 |
| Total expenses | 18,561,144 | 19,154,882 | 18,395,386 |
| Revenues | | | |
| Sale of goods and services | 387,871 | 439,437 | 424,406 |
| Gains on disposals of assets | 22,970 | 170,308 | 22,232 |
| Other | 20,097 | 20,882 | 24,315 |
| Interest and gains on foreign exchange | 9,269 | 13,407 | 8,683 |
| Revenues earned on behalf of Government | (31,483) | (43,144) | (16,336) |
| Total revenues | 408,724 | 600,890 | 463,300 |
| Net cost from continuing operations | 18,152,420 | 18,553,992 | 17,932,086 |
| Government funding and transfers | | | |
| Net cash provided by Government | | 17,745,613 | 19,945,463 |
| Change in due from Consolidated Revenue Fund | | (85,739) | (762,337) |
| Services provided without charge by other government departments (note 18) | | 720,303 | 733,909 |
| Transfer of Accounts receivable to Public Works and Government Services (note 19) | | (59,621) | 0 |
| Transfer of assets and liabilities from (to) other government departments | | (7,372) | (1,081) |
| Net cost of operations after government funding and transfers | | 240,808 | (1,983,868) |
| Departmental net financial position — beginning of year | | 37,514,409 | 35,530,541 |
| Departmental net financial position — end of year | | 37,273,601 | 37,514,409 |

Segmented information (note 20)

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

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



CONSOLIDATED STATEMENT OF CHANGE IN DEPARTMENTAL NET DEBT (UNAUDITED)

For the year ended March 31

| (in thousands of dollars) | 2015 | 2014 (Restated note 21) |
|--|--------------------|-------------------------------|
| Net cost of operations after government funding and transfers | 240,808 | (1,983,868) |
| Change due to tangible capital assets | | |
| Acquisition of tangible capital assets | 2,852,844 | 3,139,130 |
| Amortization of tangible capital assets | (2,587,980) | (2,424,447) |
| Proceeds from disposal of tangible capital assets | (17,145) | (22,431) |
| Loss on disposals of tangible capital assets | (721,972) | (128,995) |
| Adjustments of tangible capital assets | 496,741 | 6,374 |
| Transfer to other government departments | (7,372) | (1,081) |
| Total change due to tangible capital assets | 15,116 | 568,550 |
| Change due to inventories | (102,747) | 71,074 |
| Change due to prepaid expenses | 153,978 | 13,819 |
| Net increase (decrease) in departmental net debt | 307,155 | (1,330,425) |
| Departmental net debt — beginning of year | 1,862,332 | 3,192,757 |
| Departmental net debt — end of year | 2,169,487 | 1,862,332 |

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) | 2015 | 2014 (Restated note 21) |
|--|--------------------|-------------------------------|
| Operating activities | | |
| Net cost of operations before Government funding and transfers | 18,553,992 | 17,932,086 |
| Non-cash items included in net cost of operations | | |
| Amortization of tangible capital assets | (2,587,980) | (2,398,950) |
| Loss on disposals of tangible capital assets | (721,972) | (128,995) |
| Adjustments of tangible capital assets | 496,741 | 6,374 |
| Services provided without charge by other government departments (note 18) | (720,303) | (733,909) |
| Transition payments for implementing salary payments in arrears (note 19) | 59,621 | 0 |
| Variations in Statement of Financial Position | | |
| Increase (decrease) in accounts receivables | (654,073) | 698,566 |
| Increase (decrease) in loans and advances | (4,635) | 6,082 |
| Increase (decrease) in prepaid expenses | 153,978 | 13,819 |
| Increase (decrease) in inventories | (102,747) | 71,074 |
| Decrease (increase) in accounts payable and accrued liabilities | 60,223 | 510,691 |
| Decrease (increase) in vacation pay and compensatory leave | 9,626 | 16,277 |
| Decrease (increase) in deposits and trust accounts | (2,448) | 822 |
| Decrease (increase) in deferred revenue | 3,451 | 3,837 |
| Decrease (increase) in Canadian Forces pension and insurance accounts | 242,172 | 65,201 |
| Decrease (increase) in employee future benefits | 33,226 | 764,626 |
| Decrease (increase) in remediation liabilities | 37,036 | (55,275) |
| Decrease (increase) in future asset restoration liabilities | 676 | 1,055 |
| Cash used by operating activities | 14,856,584 | 16,773,381 |
| Capital investing activities | | |
| Acquisitions of tangible capital assets (note 14) | 2,852,844 | 3,139,130 |
| Proceeds on disposal of surplus assets | (17,145) | (22,431) |
| Cash used by capital investing activities | 2,835,699 | 3,116,699 |
| Financing activities | | |
| Payments against / adjustments to capital lease obligations | 53,330 | 55,383 |
| Cash used by financing activities | 53,330 | 55,383 |
| Net cash provided by Government of Canada | 17,745,613 | 19,945,463 |

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

1. Authority and Objectives

AUTHORITIES

The Department of National Defence (DND) 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 (CF) and of all matters relating to national defence. The Minister is also responsible for the construction and maintenance of all defence establishments and works for the defence of Canada, as well as research relating to the defence of Canada and to the development of and improvements in materiel.

OBJECTIVES

On behalf of the people of Canada, the Canadian Armed Forces (CAF) and the Department of National Defence (DND) stand ready to perform three key roles:

- Defend Canada — by delivering excellence at home;
- Defend North America — by being a strong and reliable partner with the United States in the defence of the continent; and
- Contribute to International Peace and Security — by projecting leadership abroad.

These objectives are delivered through the Program Alignment Architecture (PAA). In fiscal year 2014–15, National Defence implemented a new Program Alignment Architecture (PAA) composed of five Programs plus Internal Services. While the business of Defence remains unchanged, the articulation of that business is fundamentally altered in the new PAA. The activities associated with the Programs were aligned, and in many cases regrouped in the new PAA as:

(a) Defence Combat and Support Operations:

The Defence Combat and Support Operations Program delivers military power in combat, security, stability and surveillance operations in response to armed threats, or potential armed aggression, for the purpose of protecting Canadian sovereignty, upholding the values of Canadians, and defending the interests of the Government of Canada. Results are achieved through this program by the application of Defence capabilities in domestic, continental and international domains, either independently or in combination with allies, where the primary focus is to inflict military effects against threats. The term Defence capability is a collective term that refers to the ability of a military force to achieve a desired effect against a threat during the execution of a Defence operation (or the delivery of a Defence service) by executing tasks according to understood concepts, doctrine and standards. The military forces delivered by Defence are composed of force elements which are organizational entities that are in turn composed of members of the Canadian Armed Forces (CAF), and in some cases personnel from the Department of National Defence (DND). Force elements integrate people, with specialized information, materiel (e.g., equipment, platforms, weapon systems) and in some cases real property, so that capabilities can be applied against threats. Force elements have different sizes and compositions according to the capabilities they must apply during an operation. This program is underpinned by the *National Defence Act*, defence policy, international treaties and agreements, membership in international organizations, and direction received by the Government of Canada. Sub-programs beneath this Program target a range of threats across a variety of operational contexts via different delivery mechanisms in different geographic regions.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

(b) Defence Services and Contributions to Government:

The Defence Services and Contributions to Government Program aim to support the delivery of Canadian Government safety and security initiatives and encourage recognition and pride in Canada and the Canadian military. This is accomplished through the provision of unique Defence services in support of other elements of Government or the Canadian public. To encourage and share pride and awareness of Canada's military heritage, contributions, and leadership, Defence provides unique services and opportunities for outreach, awareness, preservation and development. Defence unique services also include operations conducted to ensure or enhance the security, safety, stability and/or well-being of Canadians, or international populations in peril, in accordance with Canadian values and the interests of the Canadian Government, in situations where there may be a need to defend against armed threats but where this is not the primary focus. The operations are delivered through the employment of force elements to achieve a desired effect within specific contexts through execution of tasks according to understood concepts, doctrine and standards. The force elements delivered by Defence are organizational entities which are composed of members of the Canadian Armed Forces and in some cases personnel from the Department of National Defence. Force elements have different sizes and compositions according to the capabilities they must apply during an operation. Defence remains consistently ready to employ force elements under this Program however significant operations do not always occur every fiscal year.

(c) Defence Ready Force Element Production:

The Defence Ready Force Element Production Program produces and renews force elements on a continual basis for use in Defence Combat and Support Operations, as well as for the delivery of Defence Services and Contributions to Government, in order to increase the likelihood of success and decrease risk of failure in the defence of Canada and promotion of Canadian interests. Results are delivered by assembling force elements from the fundamental elements of Defence capability (i.e. military personnel, materiel and information systems, information, and, in some cases, real property), and integrating them through various training and certification programs so that they have the requisite amount of readiness in order to fulfill predefined roles within the operations for which they are destined. The term readiness refers to the volume, endurance, responsiveness and capability attributes of force elements that are not employed. These attributes are used to determine the degree of risk that would be associated with assigning them to fulfill perspective role(s) within on-going or contingency operations. The force elements produced by the Defence Ready Force Elements Production Program are organized into portfolios according to the land, aerospace, and maritime environments in which they operate. There are also portfolios for force elements that operate jointly across these domains and force elements that provide common support functions. Across these portfolios, force elements are produced to meet readiness targets. These readiness targets ensure that production can be sustained over short- and medium-term time horizons and that the number of force elements available for employment in on-going and contingency operations is in accordance with acceptable levels of operational risk.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

(d) Defence Capability Element Production:

The Defence Capability Elements Production Program aims to sustain Defence by producing and maintaining portfolios of the fundamental Defence capability elements so that they are continuously available in the appropriate quantity, combination and condition to sustain the chain of programs delivered by Defence, from the Defence Capability Development and Research Program through to the Defence Ready Force Elements Production Program, which collectively give Defence the ability to conduct Defence Combat and Support Operations as well as deliver Defence Services and Contributions to Government. The primary elements of Defence capability are military personnel, materiel and information systems, information, and real property. A fundamental focus of the Defence Capability Elements Production Program is to provide an adequate and sustained supply of individual military personnel and materiel in the near-term and over long-term time horizons so that they can be integrated to produce force elements within the Defence Ready Force Element Production Program. Results are achieved through subordinate Programs, each of which focuses on a separate portfolio: military personnel and organization; materiel; real property; or information systems. A lifecycle approach is used to manage each portfolio. The essential aspects of the lifecycle approach are sub-sub-programs that provide the principle lifecycle functions: introduction into service; maintenance, upgrade and supply; release from service; portfolio management; and overarching co-ordination and control. The character of activity that occurs within each of these primary functions depends on the portfolio of entities being produced and therefore the desegregation of the lifecycle functions into sub-sub-programs is unique to each portfolio. The authority for this Program is derived from the *National Defence Act*.

(e) Defence Capability Development and Research:

The Defence Capability Development and Research Program seeks to provide the analytical bases and knowledge to anticipate foreseeable changes in the

threat and security environment and to determine the associated demand for Defence capabilities across near- and long-term time horizons in order to enable evidence-based strategic decisions that align the introduction, modification and divestment of Defence capabilities and guide the application of existing capabilities with an acceptable levels of risk. Results are achieved by: establishing and monitoring the fulfillment of near-term targets for readying force elements and conducting Defence operations; identifying lessons from past operations; assessing defence and security trends; developing and integrating new knowledge and systems/methods for conducting operations; developing approaches and conducting Defence capability analyses at strategic, operational and tactical levels; present to future capability assessments; designing and assessing defence alternatives; providing Defence capability oversight and expertise; and Defence capability use planning for sustainable Defence capabilities in future time horizons. As such, this Program sustains Defence by providing key products and services to the Defence Capability Elements Production Program, the Defence Ready Force Element Production Program and parts of the Defence Combat and Support Operations, and Defence Services and Contributions to Government Programs. This Program also directly enables the management and oversight of Defence as a whole.

(f) Internal Services:

Internal Services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups 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; Acquisition Services; and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not to those provided specifically to a program.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

2. Summary of significant accounting policies

These 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

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 reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" sections of the Statement of Operations and Departmental Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the 2014–15 *Report on Plans and Priorities*. Planned results are not presented in the "Government funding and transfers" section of the Statements of operations and Departmental Net Financial Position and in the Statement of change in Departmental Net Debt because these amounts were not included in the 2014–15 *Report on Plans and Priorities*.

(b) Consolidation

These consolidated financial statements include the accounts of the sub-entities that the deputy head (DH) is accountable for. 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 DND, the CAF and several related organizations and agencies in the Defence Portfolio, which carry out the Defence mission and are part of the Defence Services Program.

Organizations and agencies that are part of these consolidated 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 Ombudsman for the Department of National Defence and Canadian Forces;
- Office of the Judge Advocate General; and
- National Search and Rescue Secretariat.

The Military Grievances External Review Committee, the Military Police Complaints Commission, Communications Security Establishment Canada 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

(d) Amounts Due From/To the Consolidated Revenue Fund

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.
- Funds received in advance from external parties for the provision of goods, services or the use of assets are recorded upon receipt as deferred revenue. These funds are recognized as revenues in the period in which the related expenses are incurred.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

Revenues that are non-respendable are not available to discharge the Department's liabilities. While the DH is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

(f) Expenses

Expenses are recorded on an accrual basis:

- 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 grant 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 transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the 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 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 multi-employer plan administered by the Government. 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 surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

DND administers pension benefits for members of the CAF. The Department contributes towards current and past service of members, and funds any actuarial shortfalls determined by the Chief Actuary of Canada. These contributions by the Department are expensed in the year they are incurred. The balance of the pension accounts listed in these financial statements represents the net balance of transactions that occurred in the Department's accounts; this is not equal to the accrued pension benefit obligation to the government of Canada as reported in the *Public Accounts of Canada*, which is determined via an actuarial valuation by the Chief Actuary of Canada.

(iii) Severance Benefits

Employees and CAF members entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation related to the benefits earned by civilian employees is calculated using information derived from the results of the actuarially determined liability for severance benefits for the Government as a whole. The obligation related to the severance benefits earned by CAF members is based on an actuarial valuation calculated using demographic assumptions for CAF members.

(h) Accounts and Loans Receivables

Accounts and loans receivables are stated at the lower of cost and net recoverable value. Transfer payments that are unconditionally repayable are recognized as loans receivable. A valuation allowance is recorded for receivables where recovery is considered uncertain.

(i) Contingent Liabilities — Claims and Litigations

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 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 the contingency is disclosed in the notes to the financial statements.

(j) Environmental Liabilities

Environmental liabilities consist of estimated costs related to the remediation of contaminated sites as well as estimated costs related to obligations associated with the retirement of tangible capital assets and other environmental liabilities.

(i) Contaminated Sites:

A liability for 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 cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the government's consolidated revenue fund monthly lending rates for periods of one year and over. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

(ii) Asset Retirement Obligations:

A liability for an asset retirement obligation is recognized when all of the following criteria are satisfied: there is an agreement, contract, legislation, or a constructive or equitable obligation that obligates the government to incur retirement costs in relation to a tangible capital asset, the past event or transaction giving rise to the retirement liability has occurred, it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made. These costs are normally capitalized and amortized over the asset's estimated useful life based on the Government's best estimates of the cost to retire the tangible asset. The liability reflects the present value of estimated future cash flows required to retire the assets where amounts can be reasonably estimated and is expected to be settled as the related sites, facilities or assets are removed from service.

(iii) Other Environmental Liabilities:

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

The recorded environmental liabilities are adjusted each year, as required, for present value adjustments, inflation, new obligations, changes in management estimates and actual costs incurred.

(k) Inventories

Inventory consists of consumables (such as non-repairables, uniforms and clothing, medical and other equipment and machine tools) and ammunition (including bombs and missiles). Inventory is valued using a moving weighted average price methodology. 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 moving weighted average). Items identified for disposal are excluded from the value of inventory as no value is expected to be recovered.

(l) Foreign Currency Transactions

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 year-end. 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.

(m) Tangible Capital Assets

All tangible capital assets, having an initial cost of \$30,000 or more, including capital leases, betterments and leasehold improvements, are recorded at their acquisition cost. The Department does not capitalize intangible assets, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on First Nations Reserves and museum collections. Capitalization threshold values lower than \$30,000 may apply to asset pooled items (API).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

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

| Asset Class | Amortization Period |
|--------------------------------|---|
| Buildings | 10–40 years |
| Works | 5–40 years |
| Machinery and equipment | 3–30 years |
| Informatics hardware | 3–30 years |
| Informatics software | 2–10 years |
| Arms and weapons | 3–30 years |
| Other equipment | 5–30 years |
| Ships and boats | 10–30 years |
| Aircraft | 20–40 years |
| Non-military motor vehicles | 2–30 years |
| Military vehicles | 3–25 years |
| Other vehicles | 4–30 years |
| Leasehold improvements | Lesser of useful life of the improvement or term of lease |
| Leased tangible capital assets | Economic life or term of lease |

API are amortized at a rate consistent with the capital asset pool they support.

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.

(n) Measurement Uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the 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 contingent, remediation and future asset restoration liabilities, the liability for employee future benefits, allowance for doubtful accounts and the useful life of tangible capital assets. Actual results could significantly differ from those estimates. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

3. Parliamentary authorities

DND 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, DND 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) | 2015 | 2014 (Restated note 21) |
|--|--------------------|-------------------------------|
| Net cost of operations before government funding and transfers | 18,553,992 | 17,932,086 |
| Adjustments for items affecting net cost of operations but not affecting authorities: | | |
| Amortization of tangible capital assets | (2,587,980) | (2,398,950) |
| Services provided without charge by other government departments | (720,303) | (733,909) |
| Decrease (increase) in employee future benefits | 33,226 | 764,626 |
| Refund of previous year's expenses | 127,453 | 85,438 |
| Decrease (increase) in vacation pay and compensatory leave | 9,626 | 16,277 |
| Loss on disposals of capital assets | (721,972) | (128,995) |
| Adjustments of tangible capital assets | 496,741 | 6,374 |
| Refund of program expenditures | (3,344) | 2,412 |
| Decrease in deferred revenue | 3,451 | 3,837 |
| Decrease (increase) in accrued liabilities not charged to authorities | 84,125 | (186,777) |
| Bad debt expense | 794 | (2,950) |
| Sale of Real Property through Canada Lands Company | 153,166 | 56,485 |
| Decrease (increase) in remediation liabilities | 37,036 | (55,275) |
| Decrease (increase) in future asset restoration liabilities | 676 | 1,055 |
| Proceeds from sale of assets | (17,145) | (22,431) |
| Miscellaneous | (42,290) | 161,187 |
| Total items affecting net cost of operations but not affecting authorities | (3,146,740) | (2,431,596) |
| Adjustments for items not affecting net cost of operations but affecting authorities: | | |
| Acquisition of tangible capital assets | 2,852,844 | 3,139,130 |
| Decrease in lease obligations for tangible capital assets | 53,330 | 55,383 |
| Increase in inventory purchases net of usage and adjustments | (102,747) | 71,074 |
| Increase (decrease) in prepaid expenses | 153,978 | 13,819 |
| Transition payments for implementing salary payments in arrears | 59,621 | 0 |
| Revenues collected from prior year receivables | 29,660 | (15,522) |
| Total items not affecting net cost of operations but affecting authorities | 3,046,686 | 3,263,884 |
| Current year authorities used | 18,453,938 | 18,764,374 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

3. Parliamentary authorities (continued)

(b) Authorities provided and used

| (in thousands of dollars) | 2015 | 2014 |
|---|--------------------|-------------------|
| Vote 1 — Operating expenditures | 13,817,380 | 14,135,439 |
| Vote 5 — Capital expenditures | 4,835,558 | 3,618,940 |
| Vote 10 — Grants & contributions | 178,765 | 184,691 |
| Statutory amounts | 1,621,453 | 1,757,405 |
| Less: | | |
| Authorities available for future years | (1,692,267) | (836,782) |
| Frozen allotments and other planned lapses | (99,929) | (75,253) |
| Residual lapse | (207,022) | (20,066) |
| Current year authorities used | 18,453,938 | 18,764,374 |

4. Accounts payable and accrued liabilities

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

| (in thousands of dollars) | 2015 | 2014 (Restated note 21) |
|--|------------------|-------------------------------|
| Accounts payable — other government departments and agencies | 74,805 | 117,915 |
| Accounts payable — external parties | 1,495,108 | 1,280,944 |
| | 1,569,913 | 1,398,859 |
| Accrued liabilities* | 770,154 | 1,001,431 |
| Total accounts payable and accrued liabilities | 2,340,067 | 2,400,290 |

* In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012–2013. As a result, the Department has recorded at March 31, 2015, an obligation for termination benefits for an amount of \$24.6 million (\$24.1 million 2013–14) as part of accrued liabilities to reflect the estimated workforce adjustment costs.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

5. Deposits and trust accounts

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

| (in thousands of dollars) | 2015 | 2014 |
|---|--------------|--------------|
| Contractor security deposits | | |
| Deposits, beginning of year | 2,588 | 3,614 |
| Deposits received | 7,037 | 4,308 |
| Refunds | (5,071) | (5,334) |
| Contractor security deposits, end of year | 4,554 | 2,588 |
| Trust account, estates — Armed Services* | | |
| Trust account, beginning of year | 757 | 553 |
| Funds received | 1,783 | 1,651 |
| Payments | (1,301) | (1,447) |
| Trust account, estates — Armed Services, end of year | 1,239 | 757 |
| Closing balance | 5,793 | 3,345 |

* 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 his capacity as Director of Estates.

6. Deferred revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming from amounts received from external parties which are restricted to fund the expenditures related to amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

| (in thousands of dollars) | 2015 | 2014* |
|--|---------------|---------------|
| Foreign governments | | |
| Beginning of year | 5,368 | 9,794 |
| Funds received | 87,677 | 91,796 |
| Revenue Recognized | (88,506) | (96,222) |
| Foreign governments, end of year | 4,539 | 5,368 |
| Other specified purposes | | |
| Beginning of year | 8,412 | 7,823 |
| Funds received | 2,888 | 12,940 |
| Revenue Recognized | (5,510) | (12,351) |
| Other specified purposes, end of year | 5,790 | 8,412 |
| Closing balance | 10,329 | 13,780 |

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

7. Canadian Forces pension and insurance accounts

Established in 1901 under the *Militia Pension Act*, the present Canadian Forces pension plans (the “CF pension plans”) are administered in accordance with the provisions of the *Canadian Forces Superannuation Act*. The Canadian Forces pension plan (CFPP) covers all members of the Regular Force component of the Canadian Armed Forces. 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 Canadian Forces Pension Fund Account, the Retirement Compensation Arrangement Account, and the Reserve Force Pension Fund Account. These accounts record transactions such as contributions, benefit 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 financial statements for the CF pension plans reflect only the balances which are posted in the departmental financial system. These balances do 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 of National Defence. For further information on PSPIB, please visit www.pspib.ca.

The Canadian Forces 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 Canadian Forces Pension Fund Account and the Reserve Force Pension Fund Account 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 Forces Death Benefit Account, which provides life insurance to contributing members and former members of the Canadian Armed Forces. This account records contribution, premiums, interest, and benefit payments.

The Retirement Compensation Arrangements (RCA) account 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, 2015, the total refundable tax transferred amounts to \$362 million (\$341 million in 2013–14).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

7. Canadian Forces pension and insurance accounts (continued)

The following table provides details of the Canadian Forces pension and insurance accounts:

| (in thousands of dollars) | 2015 | 2014 |
|--|--------------------|-------------------|
| Canadian Forces Superannuation Account | | |
| Beginning of year | 46,297,376 | 46,357,136 |
| Funds received and other credits | 2,314,616 | 2,434,150 |
| Payments and other charges | (2,493,341) | (2,493,910) |
| Canadian Forces Superannuation Account, end of year | 46,118,651 | 46,297,376 |
| Canadian Forces Pension Fund Account | | |
| Beginning of year | 263,355 | 276,096 |
| Funds received and other credits | 1,437,566 | 1,508,486 |
| Payments and other charges | (577,530) | (511,388) |
| Transfers to the Public Sector Pension Investment Board | (939,926) | (1,009,839) |
| Canadian Forces Pension Fund Account, end of year | 183,465 | 263,355 |
| Reserve Force Pension Fund Account | | |
| Beginning of year | 1,609 | 13,234 |
| Funds received and other credits | 95,348 | 40,242 |
| Payments and other charges | (80,450) | (51,867) |
| Transfers to the Public Sector Pension Investment Board | (19,059) | 0 |
| Reserve Force Pension Fund Account, end of year | (2,552) | 1,609 |
| Retirement Compensation Arrangements Account | | |
| Beginning of year | 351,186 | 329,951 |
| Funds received and other credits | 49,657 | 49,047 |
| Payments and other charges | (27,312) | (27,812) |
| Retirement Compensation Arrangements Account, end of year | 373,531 | 351,186 |
| Regular Force Death Benefit Account | | |
| Beginning of year | 189,252 | 191,562 |
| Funds received and other credits | 29,775 | 30,103 |
| Payments and other charges | (31,516) | (32,413) |
| Regular Force Death Benefit Account, end of year | 187,511 | 189,252 |
| Closing balance | 46,860,606 | 47,102,778 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

8. Lease obligations for tangible capital assets

The Department has entered into agreements to lease certain equipment under capital leases with a cost of \$852 million and accumulated amortization of \$577 million as at March 31, 2015 (\$836 million and \$536 million respectively as at March 31, 2014). The obligations for the upcoming years include the following:

| (in thousands of dollars) | Total future minimum lease payments | Imputed interest [5.29% to 8.05%] | Balance of obligations 2015 | Balance of obligations 2014 |
|---------------------------|-------------------------------------|-----------------------------------|-----------------------------|-----------------------------|
| Buildings | 124,524 | (32,452) | 92,072 | 93,730 |
| Aircraft | 322,673 | (43,069) | 279,604 | 331,276 |
| Total | 447,197 | (75,521) | 371,676 | 425,006 |

Future minimum lease payments

| (in thousands of dollars) | 2015–2016 | 2016–2017 | 2017–2018 | 2018–2019 | 2019–20 and thereafter |
|---------------------------|---------------|---------------|---------------|---------------|------------------------|
| Buildings | 13,804 | 13,509 | 13,832 | 11,759 | 71,620 |
| Aircraft | 70,105 | 70,105 | 70,105 | 70,105 | 42,253 |
| Total | 83,909 | 83,614 | 83,937 | 81,864 | 113,873 |

The Department has entered into agreements for buildings and aircraft under capital leases (refer to note 14 of these financial statements).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

9. Employee future benefits

(a) Pension benefits:

i) 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 contributions 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 2014–15 expense amounts to \$182.1 million (\$207.9 million in 2013–14). For Group 1 members, the expense represents approximately 1.41 times (1.6 times in 2013–14) the employees contributions and, for Group 2 members, approximately 1.39 times (1.5 times in 2013–14) the employees contributions.

The Department's responsibility with regard to the pension 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.

ii) 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.

iii) The members of the Canadian Armed Forces Reserve Force pension plan 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 CF pension plans for both current and prior service. The 2014–15 expense amounts to \$1,063.8 million (\$1,133.2 million in 2013–14), which represents approximately 1.87 times (2.12 times in 2013–14) the contributions by employees.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

9. Employee future benefits (continued)

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 \$170 million (\$249 million in 2013–14) to fund the deficit in the Canadian Forces Pension Fund Account, and \$1.9 million (\$0 in 2013–14) for the Reserve Force pension fund 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>)

(b) Severance benefits:

The Department provides severance benefits to its public service employees and CAF members based on eligibility, years of service, final salary and authorized period of service. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of collective agreement negotiations with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation disclosed below.

Information about the severance benefits, measured as at March 31, is as follows:

| (in thousands of dollars) | 2015 | 2014 |
|--|----------------|------------------|
| Public Service Employees | | |
| Accrued benefit obligation, beginning of year | 87,852 | 165,258 |
| Expenses for the year | 56,220 | 50,495 |
| Benefits paid during the year | (30,266) | (127,901) |
| Accrued benefit obligation, end of year | 113,806 | 87,852 |
| Canadian Armed Forces Members | | |
| Accrued benefit obligation, beginning of year | 920,880 | 1,608,100 |
| Expenses for the year | 95,040 | (568,096) |
| Benefits paid during the year | (154,220) | (119,124) |
| Accrued benefit obligation, end of year | 861,700 | 920,880 |
| Total accrued benefit obligation, end of year | 975,506 | 1,008,732 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

10. Accounts receivables

The following table presents details of accounts receivable:

| (in thousands of dollars) | 2015 | 2014 |
|---|----------------|----------------|
| External parties | 110,967 | 79,365 |
| Other government departments and agencies | 135,430 | 817,637 |
| | 246,397 | 897,002 |
| Less: allowance for doubtful accounts on external receivables | 6,918 | 8,181 |
| Gross accounts receivable | 239,479 | 888,821 |
| Accounts receivable held on behalf of Government | (7,434) | (2,703) |
| Net Receivables | 232,045 | 886,118 |

11. Loans and advances

The following table presents details of loans and advances:

| (in thousands of dollars) | 2015 | 2014 |
|---|---------------|---------------|
| Imprest accounts, standing advances and authorized loans to CAF members | 36,230 | 40,875 |
| Accountable advances (temporary advances) | 10 | 0 |
| Total loans and advances | 36,240 | 40,875 |

12. Prepaid expenses

The following is a breakdown of prepaid expenses:

| (in thousands of dollars) | 2015 | 2014 |
|---|----------------|----------------|
| Foreign military purchases | 318,044 | 323,447 |
| Mercury Global military wideband satellite communications project | 158,132 | 86,593 |
| Sea sparrow missiles | 120,588 | 35,227 |
| NATO flying training Canada (NFTC) | 53,023 | 51,397 |
| Building rentals | 17,450 | 18,505 |
| Other purchases | 110,582 | 108,672 |
| Total prepaid expenses | 777,819 | 623,841 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

13. Inventories

The following table presents the details of inventory, measured at cost using the moving weighted 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) | 2015 | 2014 |
|---|------------------|------------------|
| Ammunition, bombs and missiles | 3,550,582 | 3,553,220 |
| Uniforms and clothing | 418,854 | 431,862 |
| Contractor held inventory | 397,827 | 472,505 |
| Communication, electrical parts/accessories and informatics equipment | 313,183 | 263,426 |
| Metal | 301,078 | 327,246 |
| Engineering, test and technical equipment and machine tools | 272,408 | 288,106 |
| Land equipment spares | 211,153 | 184,473 |
| Ship spares | 187,806 | 249,238 |
| Aircraft spares | 153,558 | 135,980 |
| Sonobuoys, parts and accessories | 134,486 | 148,705 |
| Medical equipment | 113,164 | 109,038 |
| Fuel, petroleum and oil | 68,020 | 63,775 |
| Miscellaneous | 204,903 | 202,195 |
| Total inventories | 6,327,022 | 6,429,769 |

The cost of consumed inventory recognized as an expense in the Consolidated Statement of Operations and Departmental Net Financial Position is \$501 million in 2014–15 (\$480 million in 2013–14).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

14. Tangible capital assets

| Cost | | | | | |
|---------------------------------------|--|----------------------------|------------------|--------------------------|---------------------|
| (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 | 87,795 | 0 | 0 | (880) | 86,915 |
| Buildings | 8,811,132 | 306,362 | 170 | (23,172) | 9,094,492 |
| Works | 2,431,478 | 85,025 | 0 | (12,417) | 2,504,086 |
| | 11,330,405 | 391,387 | 170 | (36,469) | 11,685,493 |
| Machinery and equipment | | | | | |
| Machinery and equipment | 6,827,142 | 241,215 | 44,849 | (345,138) | 6,768,068 |
| Informatics hardware | 6,992,411 | 282,292 | 45,918 | (280,399) | 7,040,222 |
| Informatics software | 779,486 | 8,679 | 480 | 0 | 788,645 |
| Arms and weapons | 6,416,627 | 361,219 | 17,160 | (791,913) | 6,003,093 |
| Other equipment | 111,587 | (5,514) | 1,013 | (2,779) | 104,307 |
| | 21,127,253 | 887,891 | 109,420 | (1,420,229) | 20,704,335 |
| Ships, aircraft and vehicles | | | | | |
| Ships and boats | 11,962,341 | 279,539 | 8,322 | (55,003) | 12,195,199 |
| Aircraft | 16,545,672 | 1,355,519 | 13,994 | (507,238) | 17,407,947 |
| Non-military motor vehicles | 834,295 | 61,683 | 33,735 | (59,236) | 870,477 |
| Military vehicles | 1,770,285 | 878 | 1,321 | (43,716) | 1,728,768 |
| Other vehicles | 416,139 | 13,306 | 6,082 | (29,227) | 406,300 |
| | 31,528,732 | 1,710,925 | 63,454 | (694,420) | 32,608,691 |
| Leasehold improvements | | | | | |
| Leasehold improvements | 46,924 | 20,083 | 0 | (641) | 66,366 |
| | 46,924 | 20,083 | 0 | (641) | 66,366 |
| Leased tangible capital assets | | | | | |
| Buildings | 141,074 | 2,303 | 12,023 | 0 | 155,400 |
| Other equipment | 48 | 0 | 0 | 0 | 48 |
| Aircraft | 696,876 | 0 | 0 | 0 | 696,876 |
| | 837,998 | 2,303 | 12,023 | 0 | 852,324 |
| Assets under construction | | | | | |
| Buildings | 863,895 | (369,322) | 514,050 | (8,679) | 999,944 |
| Engineering works | 56,749 | (47,562) | 71,093 | (678) | 79,602 |
| Informatics software | 256,632 | (23,916) | 45,440 | (24,072) | 254,084 |
| Equipment | 6,169,945 | (1,464,902) | 2,037,194 | (129,512) | 6,612,725 |
| | 7,347,221 | (1,905,702) | 2,667,777 | (162,941) | 7,946,355 |
| Gross tangible capital assets | 72,218,533 | 1,106,887 | 2,852,844 | (2,314,700) | 73,863,564 |

(1) Adjustments represent adjustments to asset pooled items (API), assets under construction (AUC) put into use and reclassifications.

During 2014–15, the Department transferred out equipment (net book value of \$7,372.2 thousand) to Fisheries and Oceans Canada. Also during 2014–15 the Department transferred in land (book value of two dollars) from Aboriginal Affairs and Northern Development Canada and machinery and equipment (net book value of one dollar) from Environment Canada and equipment (net book value of one dollar) from Employment and Social Canada. These transfers are included in the adjustments column.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

14. Tangible capital assets (continued)

| Accumulated amortization | | | | | | | |
|---------------------------------------|--|----------------|------------------|--------------------------|---------------------|-------------------|-------------------------|
| (in thousands of dollars) | Balance beginning of year (Restated note 21) | Adjustments | Amortization | Disposals and write-offs | Balance end of year | Net Book Value | |
| | | | | | | 2015 | 2014 (Restated note 21) |
| Land, buildings and works | | | | | | | |
| Land | | | | | | 86,915 | 87,795 |
| Buildings | 3,767,576 | 11,173 | 232,334 | (16,814) | 3,994,269 | 5,100,223 | 5,043,556 |
| Works | 1,332,304 | (11,364) | 71,242 | (8,946) | 1,383,236 | 1,120,850 | 1,099,174 |
| | 5,099,880 | (191) | 303,576 | (25,760) | 5,377,505 | 6,307,988 | 6,230,525 |
| Machinery and equipment | | | | | | | |
| Machinery and equipment | 5,022,774 | 208,060 | 225,355 | (338,118) | 5,118,071 | 1,649,997 | 1,804,366 |
| Informatics hardware | 5,789,669 | 207,345 | 475,728 | (278,470) | 6,194,272 | 845,950 | 1,202,742 |
| Informatics software | 399,289 | (74) | 65,874 | 0 | 465,089 | 323,556 | 380,198 |
| Arms and weapons | 3,758,309 | 60,131 | 203,469 | (446,163) | 3,575,746 | 2,427,347 | 2,658,318 |
| Other equipment | 65,599 | 1,118 | 7,126 | (2,603) | 71,240 | 33,067 | 45,988 |
| | 15,035,640 | 476,580 | 977,552 | (1,065,354) | 15,424,418 | 5,279,917 | 6,091,612 |
| Ships, aircraft and vehicles | | | | | | | |
| Ships and boats | 7,881,863 | 21,466 | 445,778 | 31,235 | 8,380,342 | 3,814,857 | 4,080,478 |
| Aircraft | 9,246,518 | 72,971 | 668,781 | (396,972) | 9,591,298 | 7,816,649 | 7,299,154 |
| Non-military motor vehicles | 529,840 | 36,930 | 58,695 | (58,421) | 567,044 | 303,433 | 304,455 |
| Military vehicles | 1,259,746 | 4,794 | 71,597 | (30,454) | 1,305,683 | 423,085 | 510,539 |
| Other vehicles | 281,084 | 4,968 | 17,162 | (29,216) | 273,998 | 132,302 | 135,055 |
| | 19,199,051 | 141,129 | 1,262,013 | (483,828) | 20,118,365 | 12,490,326 | 12,329,681 |
| Leasehold improvements | | | | | | | |
| Leasehold improvements | 24,008 | 0 | 4,550 | (641) | 27,917 | 38,449 | 22,916 |
| | 24,008 | 0 | 4,550 | (641) | 27,917 | 38,449 | 22,916 |
| Leased tangible capital assets | | | | | | | |
| Buildings | 67,349 | 0 | 6,485 | 0 | 73,834 | 81,566 | 73,725 |
| Other equipment | 46 | 0 | 2 | 0 | 48 | 0 | 2 |
| Aircraft | 469,428 | 0 | 33,802 | 0 | 503,230 | 193,646 | 227,449 |
| | 536,823 | 0 | 40,289 | 0 | 577,112 | 275,212 | 301,176 |
| Assets under construction | | | | | | | |
| Buildings | | | | | | 999,944 | 863,895 |
| Engineering works | | | | | | 79,602 | 56,749 |
| Informatics software | | | | | | 254,084 | 256,632 |
| Equipment | | | | | | 6,612,725 | 6,169,945 |
| | | | | | | 7,946,355 | 7,347,221 |
| Total | 39,895,402 | 617,518 | 2,587,980 | (1,575,583) | 41,525,317 | 32,338,247 | 32,323,131 |

In 2014–15, the Department had capital asset holdings that were damaged but that have yet to be approved for write-down or write-off. The net book value of these holdings has been estimated in the table on the right.

Further evaluation of these capital asset holdings will be conducted in fiscal year 2015–16 and, once the review is completed and the net book value of these holdings is confirmed, the applicable write-down or write-off accounting entries will be recorded.

| | 2015 | 2014 |
|----------------------------|-----------------|-----------------|
| Assets likely for disposal | \$ 94.1 million | \$ 19.3 million |
| Assets pending evaluation | \$ 0.28 million | \$ 0.4 million |
| Assets under repair | \$ 0.1 million | \$ 8.3 million |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

15. Environmental liabilities

The government has developed a “Federal Approach to Contaminated Sites”, which incorporates a risk-based approach to the management of contaminated sites. Under this approach the Government has inventoried the contaminated sites on federal lands that have been identified, allowing them to be classified, managed and recorded in a consistent manner. This systematic approach aides 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 approximately 1,221 sites (1,211 sites in 2014) where contamination may exist and assessment, remediation and monitoring may be required. Of these, the Department has identified 219 sites (242 sites in 2014) where action is possible and for which a net liability of \$425,387,988 (\$462,424,603 in 2014) has been recorded. This liability represents management’s best estimate of the amount required to complete the remediation of the sites to the current minimum standard for its use prior to contamination, based on information available at the financial statement date. A net present value technique has been used for sites where the cash flows are expected to occur over extended future periods.

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, 2015, and March 31, 2014. When the liability estimate is based on a future cash requirement, the Government of Canada lending rate applicable to loans with similar terms to maturity has been used to discount the estimated future expenditures. The March 2015 rates range from 0.61% for 2 year term to 2.12% for a 25 or greater year term.

| 2015 | | | | |
|---|-----------------|---------------------|----------------------------------|---------------------|
| Nature and source | Number of sites | Estimated liability | Estimated undiscounted liability | Expected recoveries |
| Military and former military sites | 111 | 343,158,471 | 360,746,891 | – |
| Fuel related practices | 59 | 33,517,936 | 34,660,817 | – |
| Landfill / waste sites | 36 | 45,420,099 | 47,365,958 | – |
| Engineering assets / air and land | 1 | 269,331 | 277,637 | – |
| Office / commercial / industrial operations | 8 | 494,466 | 504,512 | – |
| Other | 4 | 2,527,685 | 2,566,109 | – |
| Totals | 219 | 425,387,988 | 446,121,924 | – |

| 2014 | | | | |
|---|-----------------|---------------------|----------------------------------|---------------------|
| Nature and source | Number of sites | Estimated liability | Estimated undiscounted liability | Expected recoveries |
| Military and former military sites | 127 | 375,221,814 | 417,412,047 | – |
| Fuel related practices | 59 | 29,102,543 | 31,352,585 | – |
| Landfill / waste sites | 42 | 54,648,396 | 59,430,442 | – |
| Engineering assets / air and land | 1 | 50,000 | 51,068 | – |
| Office / commercial / industrial operations | 8 | 782,378 | 807,370 | – |
| Other | 5 | 2,619,472 | 2,700,430 | – |
| Totals | 242 | 462,424,603 | 511,753,942 | – |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

15. Environmental liabilities (continued)

(a) Remediation of contaminated sites (continued)

Of the remaining 1,002 sites, 56 sites were closed, as they were either remediated or assessed and found not to be contaminated, and there are 946 sites for which an estimated liability has not been determined, primarily due to the fact the sites are not yet fully assessed and contamination has not yet been determined or they have not developed a detailed remediation plan. As the sites are assessed, if contamination is found, and it exceeds the environmental standard, a liability will be recognized as soon as a reasonable estimate can be made.

Of the 946 sites that do not have liabilities, 34 are considered high priority for action because they present a higher risk to human health and the environment. These sites are at various stages of testing and evaluation in order to develop a remediation or risk management strategy. Liabilities will be reported as soon as reasonable estimate can be determined. 377 are considered a medium to low priority based on the low level of risk to human health or the environment. Assessment and remediation will be done on these sites based on the determination of risk and prioritized within departmental plans. 316 sites are not yet classified because they are only at the initial testing stages and contamination has not yet been determined. 175 sites are not considered a priority for action because information indicates there is likely no significant environmental impact or human health threats and there is likely no need for action unless new information becomes available indicating greater concerns, in which case, the site will be re-examined. 44 sites currently have insufficient information in order to classify. Additional information is required to classify the site but is not available at this time. As additional information becomes available the sites will be re-examined.

(b) Other Environmental Liabilities

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 to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

The Government has identified 918 unexploded explosive ordnance (UXO) suspected sites for which clearance action may be necessary. Of these sites, 57 (63 in 2014) are confirmed UXO affected sites. Based on the Government's best estimates, a liability of \$1.3 million (\$2 million in 2014) has been recorded for clearance action on 5 (6 in 2014) of the confirmed UXO sites. The remaining 861 suspected sites 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 68 sites, possible for 774 sites and unlikely for 19 sites.

The Government's ongoing efforts to assess contaminated sites, asset retirement obligations and UXO affected sites may result in additional environmental liabilities. Any additional liabilities will be accrued in the year in which they become known and can be reasonably estimated.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

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 \$4.2 million (\$12.6 million in 2013–14) at March 31, 2015.

17. 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) | 2015–2016 | 2016–2017 | 2017–2018 | 2018–2019 | 2019–2020 and thereafter | Total |
|---------------------------|------------------|------------------|------------------|------------------|--------------------------------|-------------------|
| Fixed Assets | 1,573,414 | 1,363,177 | 873,863 | 609,906 | 1,352,404 | 5,772,764 |
| Purchases | 2,164,808 | 1,594,375 | 1,263,263 | 862,095 | 5,936,915 | 11,821,456 |
| Total | 3,738,222 | 2,957,552 | 2,137,126 | 1,472,001 | 7,289,319 | 17,594,220 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

18. Related party transactions

The Department is related as a result of common ownership to all Government departments, agencies and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

(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 Statement of Operations and Departmental Net Financial Position as follows:

| (in thousands of dollars) | 2015 | 2014 |
|--|----------------|----------------|
| Employer's contributions to the health and dental plans paid by Treasury Board of Canada Secretariat | 635,004 | 647,303 |
| Accommodation provided by Public Works and Government Services Canada | 74,364 | 74,159 |
| Worker's compensation coverage provided by Employment and Social Development Canada | 7,787 | 8,848 |
| Legal services provided by Department of Justice Canada | 3,148 | 3,599 |
| Total | 720,303 | 733,909 |

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 Works and Government Services of 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. The costs of information technology infrastructure services provided by Shared Services Canada, following the transfer of responsibilities in November 2011 and April 2013, are also 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) | 2015 | 2014 |
|--|------------------|------------------|
| Expenses — other government departments and agencies | 1,140,588 | 1,089,882 |
| Revenues — other government departments and agencies | 182,369 | 77,957 |
| Total | 1,322,957 | 1,167,839 |

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

19. Transfer of the transition payments for implementing salary payments in arrears

The Government of Canada implemented salary payments in arrears in 2014–15. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of the Department. However, it did result in the use of additional spending authorities by the Department. Prior to year end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Works and Government Services Canada, who is responsible for the administration of the Government pay system.

20. Segmented information

Presentation by segment is based on the Department's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program, by major object of expenses and by major type of revenues. The segment results for the period are as follows:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

20. Segmented information (continued)

| (in thousands of dollars) | DCSO | DSCG | DRFEP | DCEP |
|--|------------------|-----------------|------------------|-------------------|
| Operating expense | | | | |
| Salary and employee benefits | 785,416 | 383,475 | 2,870,708 | 5,161,087 |
| Amortization | 0 | 0 | 0 | 2,587,980 |
| Professional and special services | 156,834 | 27,171 | 42,571 | 1,558,819 |
| Repair and maintenance | 18,657 | 818 | 12,530 | 1,014,715 |
| Materials and supplies | 83,663 | 35,799 | 268,646 | 366,082 |
| Loss on disposals and write-offs and write-downs of assets | 721,972 | 0 | 0 | 0 |
| Transportation and communication | 39,399 | 29,342 | 110,268 | 482,937 |
| Expenses related to tangible assets | 8,958 | 1,319 | 22,645 | 591,793 |
| Other services | 17,961 | 5,940 | 34,301 | 280,894 |
| Accommodation | 11,185 | 10,724 | 22,999 | 150,501 |
| Utilities | 1,356 | 457 | 2,097 | 175,645 |
| Equipment and other rentals | 12,624 | 13,608 | 36,036 | 33,788 |
| Interest on capital lease payments | 70,105 | 0 | 0 | (47,505) |
| Advertising, printing and related services | 2,568 | 249 | 698 | 12,044 |
| Other expenses | (629,485) | 21,016 | (26,959) | 529,144 |
| Bad debts | (24) | (9) | (36) | (595) |
| Total operating expenses | 1,301,189 | 529,909 | 3,396,504 | 12,897,329 |
| Transfer payments | | | | |
| Transfers to other countries and international organizations | 116,523 | 190 | 0 | (52) |
| Transfers to individuals | 0 | 5,214 | 0 | 4,989 |
| Transfers to other levels of government | 0 | 4,511 | 0 | 1,932 |
| Transfers to non-profit organizations | 0 | 0 | 0 | 3,139 |
| Total transfer payments | 116,523 | 9,915 | 0 | 10,008 |
| Total expenses | 1,417,712 | 539,824 | 3,396,504 | 12,907,337 |
| Revenues | | | | |
| Sale of goods and services | 125,116 | (11,051) | 28,063 | 253,905 |
| Gains on disposals of assets | 57 | 4 | 4,611 | 9,955 |
| Other | 46 | 460 | 2,370 | 8,222 |
| Interest and gains on foreign exchange | 179 | 4 | 226 | 8,482 |
| Revenues earned on behalf of Government | 0 | 0 | (5,742) | 0 |
| Total revenues | 125,398 | (10,583) | 29,528 | 280,564 |
| Net cost from continuing operations | 1,292,314 | 550,407 | 3,366,976 | 12,626,773 |

DCSO Defence Combat and Support Operations
DSCG Defence Services and Contributions to Government
DRFEP Defence Ready Force Element Production
DCEP Defence Capability Element Production



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

20. Segmented information (continued)

| (in thousands of dollars) | DCDR | IS | 2015 | 2014 (Restated note 21) |
|---|----------------|----------------|-------------------|-------------------------------|
| Operating expense | | | | |
| Salary and employee benefits | 266,173 | 360,643 | 9,827,502 | 9,658,530 |
| Amortization | 0 | 0 | 2,587,980 | 2,398,950 |
| Professional and special services | 65,322 | 23,678 | 1,874,395 | 1,658,286 |
| Repair and maintenance | 2,423 | 5,421 | 1,054,564 | 1,118,533 |
| Materials and supplies | 5,562 | 13,981 | 773,733 | 699,030 |
| Loss on disposals and write-offs and write-downs of assets | 0 | 0 | 721,972 | 128,995 |
| Transportation and communication | 13,565 | 7,633 | 683,144 | 731,485 |
| Expenses related to tangible assets | 4,642 | 2,019 | 631,376 | 575,939 |
| Other services | 65,418 | 16,816 | 421,330 | 412,246 |
| Accommodation | 2,429 | 3,084 | 200,922 | 192,673 |
| Utilities | 184 | 0 | 179,739 | 172,848 |
| Equipment and other rentals | 516 | 46,351 | 142,923 | 159,740 |
| Interest on capital lease payments | 0 | 0 | 22,600 | 26,058 |
| Advertising, printing and related services | 1,016 | 2,311 | 18,886 | 12,472 |
| Other expenses | 49,708 | (65,031) | (121,607) | 287,398 |
| Bad debts | (52) | (78) | (794) | 2,950 |
| Total operating expenses | 476,906 | 416,828 | 19,018,665 | 18,236,133 |
| Transfer payments | | | | |
| Transfers to other countries and international organizations | 0 | (17) | 116,644 | 139,743 |
| Transfers to individuals | 0 | (336) | 9,867 | 9,187 |
| Transfers to other levels of government | 124 | 0 | 6,567 | 6,674 |
| Transfers to non-profit organizations | 0 | 0 | 3,139 | 3,649 |
| Total transfer payments | 124 | (353) | 136,217 | 159,253 |
| Total expenses | 477,030 | 416,475 | 19,154,882 | 18,395,386 |
| Revenues | | | | |
| Sale of goods and services | 1,825 | 41,579 | 439,437 | 424,406 |
| Gains on disposals of assets | 51 | 155,630 | 170,308 | 22,232 |
| Other | 176 | 9,608 | 20,882 | 24,315 |
| Interest and gains on foreign exchange | 529 | 3,987 | 13,407 | 8,683 |
| Revenues earned on behalf of Government | (1,328) | (36,074) | (43,144) | (16,336) |
| Total revenues | 1,253 | 174,730 | 600,890 | 463,300 |
| Net cost from continuing operations | 475,777 | 241,745 | 18,553,992 | 17,932,086 |

DCDR Defence Capability Development and Research
IS Internal Services



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

For the year ended March 31

21. Restatement of previous year's results

DND is undergoing a multi-year review of its business processes related to the recording and valuation of tangible capital assets and inventory. In 2014–15 this review identified capital assets and inventory that should have been reported in previous fiscal years. The effect of the resulting retroactive adjustments are presented below:

| (in thousands of dollars) | 2014 As previously stated | Effect of changes | 2014 Restated |
|---|---------------------------------|----------------------|--------------------|
| Consolidated Statement of Financial Position | | | |
| Accounts Payable and accrued liabilities (note 4) | 2,272,421 | 127,869 | 2,400,290 |
| Total liabilities | 51,483,157 | 127,869 | 51,611,026 |
| Tangible capital assets (note 14) | 32,242,722 | 80,409 | 32,323,131 |
| Total non-financial assets | 39,296,332 | 80,409 | 39,376,741 |
| Departmental net financial position | 37,561,869 | (47,460) | 37,514,409 |
| Consolidated Statement of Operations and Departmental Net Financial Position | | | |
| Total expenses | 18,373,421 | 21,965 | 18,395,386 |
| Net cost from continuing operations | 17,910,121 | 21,965 | 17,932,086 |
| Net cost of operations after government funding and transfers | (2,005,831) | 21,965 | (1,983,868) |
| Departmental net financial position — end of year | 37,561,869 | (47,460) | 37,514,409 |
| Consolidated Statement of Change in Departmental Net Debt | | | |
| Net cost of operations after government funding and transfers | (2,005,831) | 21,963 | (1,983,868) |
| Acquisition of tangible capital assets | 3,012,027 | 127,103 | 3,139,130 |
| Amortization of tangible capital assets | (2,377,753) | (46,694) | (2,424,447) |
| Total change due to tangible capital assets | 488,141 | 80,409 | 568,550 |
| Net decrease in department net debt | (1,432,797) | 102,372 | (1,330,425) |
| Departmental net debt — beginning of year | 3,167,260 | 25,497 | 3,192,757 |
| Departmental net debt — end of year | 1,734,463 | 127,869 | 1,862,332 |
| Consolidated Statement of Cash Flows | | | |
| Net cost of operations before government funding and transfers | 17,910,121 | 21,965 | 17,932,086 |
| Amortization of tangible capital assets | (2,377,753) | (21,197) | (2,398,950) |
| Decrease in accounts payable and accrued liabilities | 638,560 | (127,869) | 510,691 |
| Cash used by operating activities | 16,900,482 | (127,101) | 16,773,381 |
| Acquisition of tangible capital assets | 3,012,027 | 127,103 | 3,139,130 |
| Cash used by capital investing activities | 2,989,596 | 127,103 | 3,116,699 |

22. Comparative Information

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



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]

1. Introduction

This document provides summary information on the measures taken by the DND to maintain an effective system of ICFR, including information on internal control management and assessment results and related action plans.

Detailed information on DND's authority, mandate and program activities can be found in Note 1 to these financial statements, as well as in the *Departmental Performance Report* and the *Report on Plans and Priorities*.

2. DND's System of Internal Control over Financial Reporting (ICFR)

2.1 Internal Control Management

DND has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. Its control environment includes a series of measures and tools to enable its staff to effectively manage risks through raising awareness, providing appropriate knowledge, as well as developing skill sets. This control environment sets the tone for the Department, and is the foundation for its ICFR. An ICFR framework document signed by the DM is in place. Furthermore, the Department has an internal control management framework in place which includes:

- Organizational accountability structures as they relate to financial management, including roles and responsibilities for senior managers in their areas of responsibility;
- A Defence Ethics Program which is a comprehensive values-based program put in place to meet the needs of DND and the CAF, at both the individual and the organizational levels;
- A comprehensive Fraud Management Strategy that protects DND's resources from fraud, waste and abuse through a prevention and detection framework;
- An annually updated Corporate Risk Profile;
- On-going communication and training on statutory requirements, policies, and procedures for sound financial management and control; and
- Regular updates, at least semi-annually, to departmental senior management, the Departmental Audit Committee (DAC) and to the DM. The DAC provides advice to the DM on the adequacy and functioning of the department's risk management, control and governance frameworks and processes.

2.2 Service arrangements relevant to financial statements

DND relies on other organizations for the processing of certain transactions that are recorded in its financial statements, and relies on these service providers to ensure an adequate system of ICFR is maintained over services provided to the Department. These include the following:

Common Arrangements:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries, and under the *Transformation of Pay Administration Initiative*, is gradually transferring pay administration services for all DND civilian public servants to the Public Service Pay Centre (PSPC) by December 2015. PWGSC also centrally administers the procurement of goods and services, as per DND's Delegation of Authorities, and provides accommodation services;
- Treasury Board Secretariat (TBS) provides the Department certain services without charge, and also with information used to calculate various accruals and allowances, such as the accrued severance liability;



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]

- The Department of Justice provides legal services to DND, as well as information for establishing the contingent liability note to the financial statements and for inclusion in the public accounts; and
- Shared Services Canada manages Information Technology General Controls (ITGCs) in the areas of email, data centre and network services.

Specific Arrangements:

- Defence Construction Canada provides contracting, construction contract management and related infrastructure services to DND in accordance with the Memorandum of Understanding between the two organizations and as per DND's Delegation of Authorities;
- Brookfield Global Relocation Services administers DND moves under the CAF Integrated Relocation Program, which represents TBS' approved policy on relocation; and
- The Office of the Superintendent of Financial Institutions (OSFI) provides the Department with the accrued severance liability amount for the CAF.

3. DND's assessment results during fiscal year 2014–15

In 2014–15, DND focused on the remediation of control deficiencies previously identified during the evaluation of the Financial Control Framework (FCF) of its high risk processes. In addition to this, work on Operating Effectiveness Testing and Ongoing Monitoring continued during the year as planned. Details of assessments and results for 2014–15 are provided in the paragraphs that follow and in Table 1 of this annex.

3.1 Design effectiveness of key controls

Remediation activities for the resolution of control gaps continued for the Department's Financial Reporting and Financial Statement Preparation,

Capital Equipment and Real Property Assets, Inventory, Procurement to Payments, Other Payables and Payments, Military Payroll and Remediation Liabilities business processes as planned.

Remediation of identified control deficiencies for the Civilian Payroll process was substantially completed in 2014–15. The remediation of many of the design issues were expedited and/or remediated through direction from central agencies and from the transfer of payroll administration to the Public Service Pay Centre, and will be fully completed with the full implementation of the Pay Consolidation in FY 2015–16.

The documentation and evaluation of design effectiveness was also completed for the Manage Financial Close process, Procurement in the Funds Management (FM) Module and Individual Designated Travel Cards. Areas for control improvements have been identified and will undergo remediation in FY 2015–16.

3.2 Operating effectiveness of key controls

In 2014–15, DND completed operating effectiveness testing for Revenue, Receivables and Receipts and prepared a remediation action plan to address documentation and training issues identified. As a result of the testing, the Department has determined that the Revenue, Receivables and Receipts process is low risk and will therefore be monitored on a three-year rotational cycle.

Remediation working group sessions were held for Prepaid Expenses (Foreign Military Sales) to address control deficiencies pertaining to standardized procedures. A plan is in place to complete remediation for the remaining outstanding items in early 2015–16.

The Department also initiated operating effectiveness testing strategy of the controls for its Civilian Payroll business processes in the new Pay Consolidation environment. Testing is expected to be completed in 2016–17 after the full implementation of Pay Consolidation.



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]

3.3 On-going monitoring of key controls

In 2014–15, the Department completed planned on-going monitoring of Entity-Level Controls (ELCs) and ITGCs. As a result of these monitoring activities, the following have been identified for remediation:

- Further improving DND’s comprehensive Fraud Program by formalizing an assessment process for fraud risk; and
- Strengthening of access controls when people depart or transfer for both the Departmental Financial Management System and the Human Resource System.

In support of the Public Accounts Audit by the Office of the Auditor General (OAG) of Canada, other ongoing monitoring activities in FY 2014–15 included the update

of financial control framework documentation for various Procurement processes, Vendor Master Data, Civilian Payroll, Regular Force Payroll and Reserve Force Payroll processes to reflect process and control changes following business transformation initiatives and revised policy direction from central agencies.

4. DND’s action plan

4.1 Progress during fiscal year 2014–15

In 2014–15, DND continued to make significant progress towards the implementation of an effective system of ICFR for the majority of the Department’s financial business processes. Table 1 below summarizes a third party assessment of DND’s progress as at 31 March 2015.

Table 1 — DND’s Progress against its 2013–14 Action Plan

| Element in the 2013–14 Action Plan | Status |
|---|--|
| Entity-level controls — Ongoing monitoring rotation | Met During 2014–15, DND continued ongoing monitoring based on the current ELC monitoring plan in place. DND also initiated updates to its ELC monitoring plan in order to better align testing and monitoring with the new 2013 COSO principles. ELCs requiring remediation were identified following the 2014–15 mapping of the DND ELC framework to the new COSO framework (e.g. completion of a fraud risk assessment) and the test plan was updated accordingly. DND will continue monitoring ELCs on a rotational basis following the completion of the updated monitoring plan in the 2015–16 year. |
| Information technology general controls — Ongoing monitoring rotation | Met The planned activity for 2014–15 focused on ongoing monitoring of ITGCs for the DRMIS system. DND continued to work on remediation of previously identified ITGC gaps, and testing results revealed that a number of gaps identified in previous years have been remediated. It was noted that the gaps that were remediated represented a higher level of risk than the new gaps. Access controls (including roles and authorization) within DRMIS continue to be the predominant area of concern. |



**ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING
INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT
OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 (UNAUDITED)**

Table 1 — DND’s Progress against its 2013–14 Action Plan (continued)

| Element in the 2013–14 Action Plan | Status |
|--|--|
| Financial reporting and financial statement preparation — Design effectiveness and remediation | <p>Substantially Met</p> <p>In 2014–15, progress was made in remediating gaps previously identified; however remediation pertaining to some of the sub-ledger to general ledger reconciliations remain outstanding. In addition, the updates to the financial control framework were completed.</p> |
| Financial Close — Design effectiveness and remediation | <p>Met</p> <p>In 2014–15 the financial control framework was documented and design effectiveness testing completed.</p> |
| Revenue and receivables — Operating effectiveness testing and remediation | <p>Met</p> <p>In 2014–15, DND completed operating effectiveness testing and prepared a remediation plan. Based on the testing completed and further analysis, the Department has assessed Revenue and receivables as low risk as the majority of this balance is substantively verified annually and will be tested on a rotational basis every three years.</p> |
| Prepaid expenses — Operating effectiveness testing and remediation | <p>Substantially Met</p> <p>Following the completion of operating effectiveness testing of Foreign Military Sales transactions and prepayments, remediation working group sessions were held during 2014–15 and a remediation plan is in place for each gap identified. The outstanding remediation items pertaining to comprehensive procedural documentation and determination of valuation of goods received are planned for completion in FY 2015-16. Ongoing monitoring will commence after this.</p> |



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 (UNAUDITED)

Table 1 — DND’s Progress against its 2013–14 Action Plan (continued)

| Element in the 2013–14 Action Plan | Status |
|---|--|
| <p>Procurement to Payment — Design effectiveness testing and remediation</p> | <p>Met</p> <p>During 2014–15, remediation activities continued and were advanced for the initial Procurement to Payment processes previously evaluated for design effectiveness. Remediation action plans, as identified and committed to during the Procure to Pay Remediation Working Group, were further progressed and in some cases, remediation items were completed, reported on and closed.</p> <p>During 2014–15, the documentation and design effectiveness testing of financial controls for Procurement leveraging the FM module of DRMIS was completed. In addition, in support of the Public Accounts Audit by the OAG of Canada, DND updated financial control framework documentation for sub-processes previously documented to reflect subsequent process and control changes in the areas of procurement and the management of Vendor Master Data.</p> |
| <p>Other payables and payments — Design effectiveness testing and remediation</p> | <p>Met</p> <p>Other payables and payments includes unique procurement to payment processes such as Acquisition Cards, Contract Holdbacks, Departmental Travel Cards and payments originating from source systems that interface with DND’s Enterprise Resource Planning (ERP) system. Due to business transformation and rationalization activities, legacy source systems are expected to be retired and ICFR documentation and implementation of financial controls will progress with these transformation initiatives.</p> <p>In 2014–15, DND documented and completed an evaluation of design effectiveness for the financial controls within the new Individual Designated Travel Card process recently launched government-wide under the Shared Travel Services Initiative. An FCF was also developed for the management and control of Delegation of Financial Signing Authorities (DFSA) at DND. The process to manage DFSA will undergo design effectiveness testing in 2015–16 following the implementation of an automated database within DND’s ERP system.</p> <p>During FY 2014–15, DND engaged departmental stakeholders to progress recommendations to improve the financial controls within the Grants and Contributions business process and initiated implementation activities for the Acquisition Card process based on the Remediation Action Plan previously established and agreed upon by the Acquisition Card Remediation Working Group.</p> |



**ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING
INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT
OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]**

Table 1 — DND’s Progress against its 2013–14 Action Plan (continued)

| Element in the 2013–14 Action Plan | Status |
|--|---|
| <p>Civilian payroll — Operating effectiveness testing and remediation</p> | <p>Met</p> <p>The Government of Canada Consolidation of Pay Services Project, led by Public Works and Government Services Canada, has a phased implementation approach with a planned completion date of December 2015. DND initiated an operating effectiveness testing strategy in the pay consolidation environment in 2014–15 following the remediation of the majority of control deficiencies identified during design effectiveness testing. The remediation of many design issues were expedited and/or remediated through the transfer of payroll administration to the Public Service Pay Centre and direction from central agencies.</p> <p>DND has also developed a financial control framework for a departmental Quality Assurance Program to validate civilian payroll controls starting in 2015.</p> <p>In addition, in support of the Public Accounts Audit by the OAG, DND updated the financial control framework documentation for Civilian Payroll to reflect subsequent process and control changes resulting from the Consolidation of Pay Services Project.</p> |
| <p>Military Regular Force Payroll — Design effectiveness and remediation</p> | <p>Met</p> <p>In 2014–15, DND finalized remediation action plans proposed by the Military Regular Force Payroll Remediation Working Group and has continued remediation efforts in the current HR/Payroll environment.</p> <p>In addition, the Assistant Deputy Minister (Finance) ((ADM(Fin))) has been working with the Military Personnel Management Capability Transformation (MPMCT) Project to identify all key elements of the Military Regular Force Payroll FCF that should be embedded into the design of the future HR/Payroll solution.</p> <p>In support of the Public Accounts Audit by the OAG, DND updated the FCF documentation for Regular Force Payroll to reflect subsequent process and control changes.</p> |



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]

Table 1 — DND’s Progress against its 2013–14 Action Plan (continued)

| Element in the 2013–14 Action Plan | Status |
|--|---|
| <p>Military Reserve Force Payroll — Design effectiveness and remediation</p> | <p>Met</p> <p>In 2014–15, DND finalized the remediation action plans proposed by the Military Reserve Force Payroll Remediation Working Group and has continued remediation efforts in the current HR/Payroll environment.</p> <p>In addition, ADM (Fin) has been working with the MPMCT project to identify all key elements of the Military Reserve Force Payroll FCF that should be embedded into the design of the future HR/Payroll solution.</p> <p>In support of the Public Accounts Audit by the OAG, DND updated the FCF documentation for Reserve Force Payroll to reflect subsequent process and control changes.</p> |
| <p>Inventories and Capital equipment assets — Design effectiveness and remediation</p> | <p>Partially Met</p> <p>During 2014–15, the focus has been on remediation activities relative to the Materiel Acquisition and Support (MA&S) and the Inventory Valuation and Reporting business processes. For the MA&S business processes, since all remediation actions had been committed to in 2013–14, monitoring of remediation activities has been ongoing. Significant remediation activities continue; however, only a limited number have been completed and closed to date.</p> <p>Inventory Valuation and Reporting business process remediation activities also commenced during the past year. Specific progress towards PIC milestones was limited by work on materiel management action items required to address system conversion problems and audit findings. To capitalize on this work, the approach in this area is being altered to align all remaining remediation activities with major transformation initiatives, or creating new initiatives where required. This will increase momentum and streamline efforts across the organization, but will impact the Department’s ability to complete the planned operational effectiveness testing by the end of 2016–17.</p> <p>The Capital equipment asset remediation report and remediation plan were finalized. System requirements to support configuration change requests to DRMIS have also been identified and will continue to be defined as remediation activities are implemented.</p> <p>Efforts were made to remediate Asset Pooled Items (APIs) through the establishment of a “Materiel Master Record (MMR) Tiger Team” — a multi-disciplinary working group aimed to identify potential solutions to the current API process. The team has developed an approach which will be used as a pilot to determine the way forward.</p> |



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]

Table 1 — DND’s Progress against its 2013–14 Action Plan (continued)

| Element in the 2013–14 Action Plan | Status |
|--|---|
| Real property assets — Design effectiveness and remediation | Met Given that the remediation activities associated with real property assets were rolled into the overall remediation activities associated with tangible capital assets, the focus shifted towards opening balance sheet verification activities for buildings and works, including the existence of assets and completeness of asset records. During 2014–15, a pilot opening balance sheet verification exercise was conducted and the results will be considered for additional site visits expected during 2015–16. |
| Remediation liabilities — Design effectiveness and remediation | Met The final design effectiveness remediation report was issued in 2014–15 and DND worked with stakeholders to progress remediation efforts so that operating effectiveness testing can commence. |

4.2 Status and action plan for the next fiscal year and subsequent years

While DND continues to work towards full implementation of the PIC, progress is slow given the size, complexities and decentralized nature of DND’s operations. Furthermore, a number of significant initiatives are underway in the Department which require the inclusion of PIC elements as part of the business transformation to realize success. Highlights of the business processes impacted by these transformation initiatives and their statuses and action plans follow:

Procure to Payment: Due to DND’s integrated ERP system, processes within this transaction flow are impacted by process changes to materiel acquisition and support and real property transformation activities, resulting in additional documentation, design testing and remediation activities. Following the completion of these activities in 2016–17, DND will commence operating effectiveness testing in 2017–18.

Other Payables and Payments: This transaction flow includes unique procure to pay processes, such as Acquisition Cards, Departmental Travel Cards, the Canadian Armed Forces (CAF) Integrated Relocation Program (IRP) payments, Manage Delegation of Financial Authorities and payments originating from source systems that interface with DND’s ERP system. Due to business transformation and rationalization activities, legacy source systems are expected to be retired and ICFR documentation and implementation of financial controls will progress with these transformation initiatives.

Military Regular and Reserve Force Payroll: The MPMCT project for Regular Force and Reserve Force pay administration is planned for full implementation by 2019–20. Implementation of the remediation action plan will continue during this transformational period and will focus on leveraging relevant elements of the Government of Canada’s Pay Modernization Project.



ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]

Civilian Payroll: The Government of Canada Consolidation of Pay Services Project led by PWGSC has a phased implementation approach which began in October 2013 with a planned completion date of December 2015. Once implemented and completed, DND will commence operating effectiveness testing of Civilian Payroll processes in a pay consolidation environment in 2016–17.

Inventory: There are various transformational projects and plans under the Materiel Acquisition and Support (MA&S) Transformation Campaign for which PIC remediation activities are dependent upon. With respect to supply management, the focus will be on continuing to work with the Inventory Management Modernization and Rationalization Project (IMMRP) to remediate PIC deficiencies identified in various MA&S processes such as Warehouse Management, Repair and Overhaul and Disposal. In addition, it will be important to stay engaged with these initiatives to ensure that internal controls are embedded in any business process re-design. For inventory valuation, the department has initiated a Materiel Pricing Project with an aim to develop and implement an action plan to address the gaps and weaknesses in materiel pricing policies and processes that lead to inaccurate materiel valuation and financial reporting.

In addition, the Department has established and will continue to monitor the CDS/DM Directive on Materiel Accountability which implemented a comprehensive risk mitigation approach to address the Departments continuing materiel management and control deficiencies. A major aspect of this was the mandatory directed stocktaking of designated high risk/high value items, including historical price confirmation.

Capital Equipment Assets: DND has stood up a Capital Asset Workshop, which will bring together Departmental stakeholders, aimed at accelerating the remediation around the acquisition of capital equipment assets. The newly defined process will include redefined roles and responsibilities, system changes, and the development of new procedural documentation to assist with the education and training for the creation of asset records. Most importantly, the CFO has committed to creating a new corporate unit focussed on capital asset and inventory Accounting. This new office will provide the support, oversight, monitoring, and functional expertise and will be the centre of excellence for the financial accounting of assets and inventory at DND.

Real Property Assets: Opening balance sheet verification site visits are being conducted to confirm the existence and completeness of Real Property Assets. Infrastructure Environment Business Modernization (IEBM) Phase 2 workshops will commence in 2015–16, and will include the identification of the appropriate internal controls over financial reporting. Operating effectiveness testing will commence after Phase 2 implementation.

A project plan is being updated to address any remaining deficiencies that have not been remediated and that do not fall within the scope of current initiatives. However, due to many interdependencies, complexities, competing priorities and scarce resources within the Department, the completion of all these ICFR frameworks will not be fully implemented by the 2016–17 timeline.

DND's action plan summarized below in Table 2 is based on current resources as well as the interdependencies described above. As such, it is impacted by changes to resource levels and project outcomes and will be reviewed annually.



**ANNEX TO THE STATEMENT OF MANAGEMENT RESPONSIBILITY INCLUDING
INTERNAL CONTROL OVER FINANCIAL REPORTING OF THE DEPARTMENT
OF NATIONAL DEFENCE FOR FISCAL YEAR 2014–2015 [UNAUDITED]**

Table 2 — Status and Action Plan for the Completion of Identified Control Areas

| Key Control Area | ASSESSMENT ELEMENTS | | |
|--|--|---|------------------------------|
| | Design effectiveness testing and remediation | Operating effectiveness testing and remediation | On-going monitoring rotation |
| Entity Level Controls (ELCs) | Completed | Completed | Yes |
| IT General Controls | Completed | Completed | Yes |
| Financial Reporting and Financial Close | 2015–16 | 2016–17 | 2016–17 |
| Process Level Controls: | | | |
| Revenues and Receivables | Completed | Completed | Yes |
| Prepaid Expenses | Completed | 2015–16 | 2016–17 |
| Procurement to Payment | 2016–17 | 2017–18 | 2018–19 |
| Other Payables and Payments | 2016–17 | 2018–19 | 2019–20 |
| Civilian Payroll | Completed | 2016–17 | 2017–18 |
| Military Regular & Reserve Force Payroll | 2016–17 | 2018–19 | 2019–20 |
| Inventories | 2016–17 | 2018–19 | 2019–20 |
| Capital Equipment Assets | 2016–17 | 2018–19 | 2019–20 |
| Real Property Assets | 2015–16 | 2017–18 | 2018–19 |
| Remediation Liabilities | Completed | 2015–16 | 2016–17 |



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