

Indian and Northern Affairs Canada

Internal Audit Report

Audit of Liabilities

**Prepared by:
Audit and Assurance Services Branch**

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Initialisms and Abbreviations

ADM	Assistant Deputy Minister
AES	Audit and Evaluation Sector
CARD	Corporate Accounting and Reporting Directorate
CFO	Chief Financial Officer
FCSAP	Federal Contaminated Sites Action Plan
FMM	Financial Management Manual
FN	First Nation
GoC	Government of Canada
HQ	Headquarters
IIABL-CSMP	Indian and Inuit Affairs Business Lines, Contaminated Sites Management Program
INAC	Indian and Northern Affairs Canada
LMRB	Litigation Management and Resolution Branch
NAO-NCSP	Northern Affairs Organization's Northern Contaminated Sites Program
NWT	Northwest Territories
OAG	Office of the Auditor General
O&M	Operating & Management
PAYE	Payable at Year-End
PSAB	Public Sector Accounting Board
RCM	Responsibility Centre Manager
TBS	Treasury Board of Canada Secretariat

Executive Summary

Introduction

The Department of Indian and Northern Affairs Canada is in the process of preparing for the first stand-alone external audit of its financial statements for the fiscal year 2010/11. For a stand-alone audit of INAC's financial statements, audit materiality is estimated at \$25M. Audit materiality is an amount by which an organization's financial statements must change in order to impact decisions made by users of the financial statements. As such, audit materiality at INAC reflects the level of precision that the Office of the Auditor General (OAG), as the external auditor of INAC, will expect. In anticipation of the stand-alone external audit, the Chief Financial Officer (CFO) Sector is leading an "audit readiness" initiative which includes a number of activities intended to help ensure the Department will be prepared for the external audit. At present, one of the key milestones associated with this initiative is to have the Department's opening balance sheet (at April 1, 2010) subject to a mock audit. This means that Departmental assets and liabilities, including contingent liabilities, must not only be accurate within the \$25M materiality but that this accuracy must be supported by appropriate evidence that can be relied upon by an external auditor. As such, it is important that management's controls and procedures, that ensure completeness and accuracy in the identification and reporting of liabilities, are in place and working properly prior to the end of the current fiscal year. In order to achieve this objective, management's control framework must be sufficiently robust to ensure all liabilities are identified in a timely manner and that they are recorded correctly in the departmental accounts. As described below, INAC's liabilities are not only very substantial in terms of dollar value and complexity, but appropriate accounting also requires technical knowledge, coordination across all regions and the ability to consistently and appropriately apply judgment.

In its March 31, 2008 Financial Statements, Indian and Northern Affairs Canada ("INAC" or "the Department") indicated total recorded liabilities of approximately **\$14.7 Billion**. This figure is significant within the Department's overall financial context as it represents more than twice the level of annual Departmental spending and significantly more than planned materiality of \$25M relating to the initiative for audited Departmental financial statements. Further it is material to the Government of Canada (GoC) as a whole since it represents 13.3% of total GoC non-debt related liabilities. Finally, INAC contributes the largest percentage (over 22%) of the GoC's Environmental Liabilities.

INAC's contingent liabilities (\$12.1B) represent over 80% of the Department's total liabilities. By their nature, contingent liabilities are particularly challenging given the

complexity of related accounting rules and the role of Management’s judgment in arriving at an appropriate and defensible figure.

INAC’s reported liabilities and contingent liabilities at March 31, 2008 are as follows:

	\$Millions	<u> </u>
Accounts payable and accrued liabilities		\$856
Trust Accounts		1,033
Settled claims		547
Contingent liabilities:		
Environmental Liabilities	\$1,497	
Liability for claims and litigation	<u>10,619</u>	<u>12,116</u>
Major categories		\$14,552
Other liabilities		<u>137</u>
Total		<u>\$14,689</u>

Given the significance of Departmental liabilities, the complexities associated with contingent liabilities and the impending external audit of Departmental financial statements, the Audit and Evaluation Sector (AES) included an audit of liabilities in its 2008-2011 Risk-Based Audit Plan.

Objective and Scope

The objective of the audit was to provide assurance to senior management regarding the adequacy and effectiveness of management controls designed to promote the accurate quantification and reporting of liabilities and contingent liabilities. The scope of the audit examined the adequacy (design) and effectiveness of management’s key financial controls intended to provide assurance that liabilities are reliably identified, quantified and reported in accordance with applicable Treasury Board, Public Sector Accounting Board (PSAB) and INAC standards, guidelines and policies. It included the following major categories of liabilities:

- Accounts payable and accrued liabilities;
- Settled claims; and
- Contingent liabilities (environmental, claims and litigation).

It was beyond the scope of this engagement to assess the accuracy of liabilities reported by the Department. Consequently, we are not expressing an opinion on the accuracy of reported liabilities or contingent liabilities.

*NOTE: Trust accounts were not included in the scope of this audit as they will be covered in the Audit of Trust Accounts scheduled to be completed by AES in 2009-2010.

Conclusion

AES is unable to provide assurance to senior management regarding the adequacy and effectiveness of those management controls designed to promote the accurate quantification and reporting of liabilities and contingent liabilities. This conclusion is based on substantive tests and other audit procedures which revealed gaps in the sufficiency of supporting documentation, control process weaknesses and inconsistencies across regions.

Key Observations

1) General findings

In many cases, initial responsibility to identify and assess departmental liabilities rests with regional personnel. As such, effective controls surrounding the identification, valuation and presentation of liabilities require the highly coordinated efforts of INAC personnel across Canada. While accountability for the effectiveness of these controls rests with the CFO Sector, the majority of INAC personnel that implement these controls are at the regional level and, as such, they have no direct reporting relationship to the CFO Sector. Because of the disconnect that exists between accountability for financial controls and organizational reporting relationships, there is a greater risk that effective coordination will not be achieved. On-site testing conducted by AES across a number of regions revealed various inconsistencies and gaps in control practices. Further, there was limited evidence of an effective central oversight and monitoring function. As a result, the department is at a relatively greater risk that key controls will not be effective or may not even exist across all regions.

As noted earlier, effective management controls over liabilities also require the engagement of technical expertise (e.g. accounting, engineering, site remediation and legal expertise) and the consistent/appropriate application of judgment. Foundational to this requirement is the need, for those persons having the responsibility to identify, measure and report liabilities, to maintain a sound understanding of both INAC and TB financial policies and to have experience regarding the role and application of judgment in accounting for liabilities. On-site testing conducted by AES across a number of regions revealed potential gaps when considering the financial expertise/capabilities of regional personnel relative to their role in the reliable quantification and reporting of liabilities and contingent liabilities. Such gaps contribute to the risk that liabilities are not correctly presented in the departmental financial statements. Some examples follow.

2) Accounts Payable and Accrued Liabilities, or “PAYEs” (\$856 Million)

AES identified examples whereby regional personnel are not correctly applying TB and INAC Policies for reporting of PAYEs. For example, it was noted that one region did not maintain sufficient supporting documentation for \$17M of PAYEs. Records in another region indicated that \$82M in PAYE balances were carried forward from prior years without being subject to appropriate management review.

3) Environmental Liabilities (\$1.5 Billion)

AES identified a lack of supporting documentation regarding remediation cost estimates (e.g. source of the cost estimate, rationale for the preferred remediation option). Such documentation is essential in order to demonstrate the reliability of these cost estimates as these cost estimates directly impact the amount of the associated environmental liability. Sufficient documentary support for environmental liabilities will be particularly significant to the department’s ability to undergo a stand-alone financial statement audit.

Further, AES noted weakness regarding a formal and risk-based approach to identifying and assessing new contaminated sites. Without a reliable process for identification and assessment, there is a considerable risk that material liabilities may go undetected or under-valued in the departmental financial statements.

4) Claims and Litigation (\$10.6 Billion)

AES identified gaps in the supporting documentation maintained to substantiate the estimated contingent liability for “general” claims and litigation (which represent \$1.5 Billion of the total reported liability).

Recommendations:

The audit report provides a number of recommendations intended to address the audit findings. Among the recommendations provided in the report, the most significant recommendations provided are as follows:

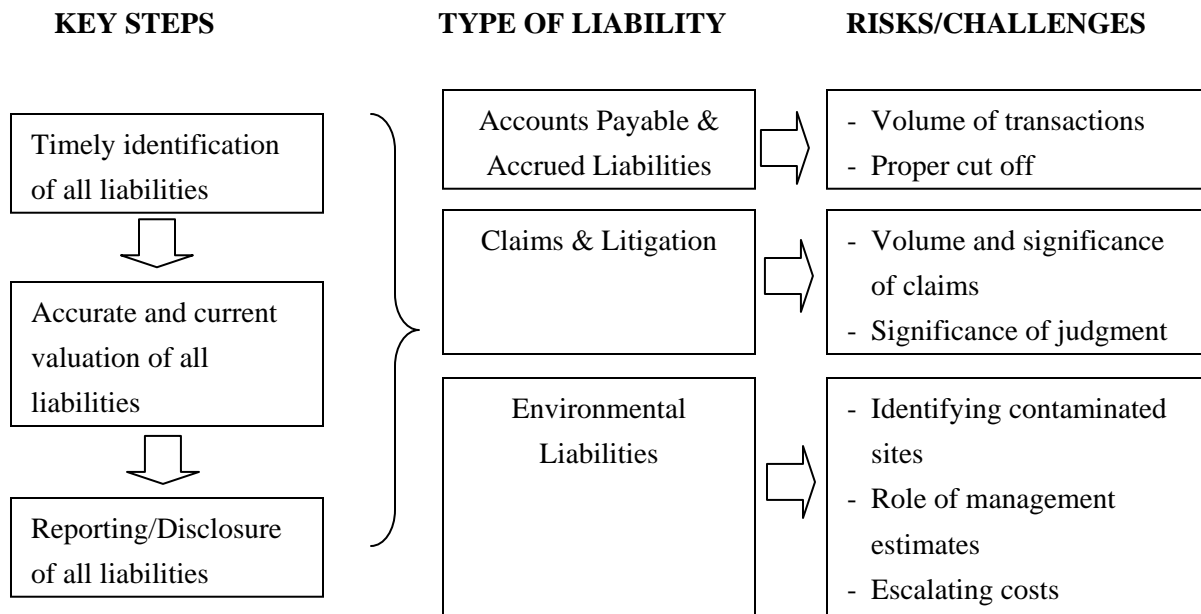
- **Accountabilities and Reporting Relationships** - Key stakeholders, at both the regional and HQ levels, with liability identification, quantification and reporting responsibilities should assess the structure of current reporting relationships and accountabilities with a view to clarifying expectations, identifying gaps and initiating changes as appropriate.

- **Training Programs and Competency Requirements**
 - The CARD should ensure that each region obtains adequate training and a clear understanding of their roles and responsibilities associated with reporting PAYEs including Regional Accounting Operations/Transfer Payment Directorate's roles and responsibilities for reviewing/monitoring PAYEs to ensure that estimates made are reasonable, properly supported and are in compliance with TBS and INAC Policies prior to submission to HQ.
 - The Contaminated Sites Program and the Environmental Directorate should clearly identify the required skills and experience based on the liabilities-related job responsibilities of regional staff. Together with regional management, training sessions, materials and other means to address the existing gap should be rolled-out across all regions.
 - The CARD should clearly identify the required skills and experience based on the liabilities-related job responsibilities of regional staff. Together with regional management, training sessions, materials and other means to address the existing gap should be rolled-out across all regions.
- **Documentation** - The Contaminated Sites Program (HQ) should clearly outline and communicate to the regions the documentation protocols for cost estimates. The rationale used to determine a preferred remediation approach should be outlined and documented in order to properly link the conclusion to the independent assessment obtained.
- **Identification and Assessment of Contaminated Sites** - Regions should implement a formally documented and risk-based approach to identifying and assessing potential contaminated sites. To the extent that financial and human resource constraints preempt the timely identification and assessment of contaminated sites, management should consider identifying alternative resource scenarios such as sharing specialists with other regions.

1.0 Introduction

The Department of Indian and Northern Affairs Canada is in the process of preparing for the first stand-alone external audit of its financial statements for the fiscal year 2010/11. Historically, INAC's financial statements have been subject to external audit as part of the annual Public Accounts of Canada audit whereby the financial positions of all GoC organizations are consolidated. In the context of a Public Accounts audit, materiality is in the range of \$1.0 Billion. For a stand-alone audit of INAC's financial statements, audit materiality is estimated at \$25M. Audit materiality is an amount by which an organization's financial statements must change in order to impact decisions made by users of the financial statements. As such, audit materiality at INAC reflects the level of precision that the OAG, as the external auditor of INAC, will expect. In anticipation of the stand-alone external audit, the CFO Sector is leading an "audit readiness" initiative which includes a number of activities intended to help ensure the Department will be prepared for the external audit. At present, one of the key milestones associated with this initiative is to have the Department's opening balance sheet (at April 1, 2010) subject to a mock audit. This means that Departmental assets and liabilities, including contingent liabilities, must not only be accurate within the \$25M materiality but that this accuracy must be supported by appropriate evidence that can be relied upon by an external auditor. As such, it is important that management's controls and procedures to ensure completeness and accuracy in the identification and reporting of liabilities are in place and working properly prior to the end of the current fiscal year.

Key steps and related risks that can be noted in a strong control environment include:



The Public Sector Accounting Handbook defines liabilities as “...present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. In its March 31, 2008 Financial Statements, INAC indicated total recorded liabilities of approximately **\$14.7 Billion**. This figure is significant within the Department’s overall financial context as it represents more than twice the level of annual Departmental spending and significantly more than planned materiality of \$25M relating to the initiative for audited Departmental financial statements. Further, it is material to the Government of Canada (GoC) as a whole since it represents 13.3% of total GoC non-debt related liabilities. Finally, INAC contributes the largest percentage (over 22%) of the GoC’s Environmental Liabilities.

INAC’s contingent liabilities (\$12.1B) represent over 80% of the Department’s total liabilities. By their nature, contingent liabilities are particularly challenging given the complexity of related accounting rules and the role of Management’s judgment in arriving at an appropriate and defensible figure.

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Given the significance of Departmental liabilities, the complexities associated with contingent liabilities and the impending external audit of Departmental financial statements, the Audit and Evaluation Sector (AES) included an audit of liabilities in its 2008-2011 Risk-Based Audit Plan.

2.0 Objective

The objective of the audit was to provide assurance to senior management regarding the adequacy and effectiveness of management controls designed to promote the accurate quantification and reporting of liabilities and contingent liabilities. It was beyond the scope of this engagement to assess the accuracy of liabilities reported by the Department. Consequently, we are not expressing an opinion on the accuracy of reported liabilities or contingent liabilities.

3.0 Scope

The scope of the audit examined the adequacy (design) and effectiveness of management's key financial controls intended to provide assurance that liabilities are reliably identified, quantified and reported in accordance with applicable Treasury Board, PSAB and applicable INAC standards, guidelines and policies. It was beyond the scope of this engagement to assess the accuracy of liabilities reported by the Department.

The audit included the following major categories of liabilities as follows:

- Accounts payable and accrued liabilities;
- Settled claims; and

- Contingent liabilities (environmental, claims and litigation).

Trust accounts were not included in the scope of the audit as they will be covered in the Audit of Trust Accounts scheduled to be completed in 2009-2010.

Audit tests were conducted on balances reported as at March 31, 2008. Walk-through tests, tests of transactions and control design assessments were performed based on information made available to AES during the conduct phase of the audit during the period of March 2009 through May 2009.

4.0 Approach and Methodology

The audit approach followed the requirements of the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and the Treasury Board of Canada Secretariat (TBS) *Policy on Internal Audit*. This means that sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions are based on a comparison of situations, as they existed at the time of the audit and against the audit criteria. It should be noted that the conclusions are only applicable for the areas examined. Consistent with the scope of this engagement, the approach was not intended to provide assurance over the liabilities reported by the Department, but rather to provide assurance over those management controls designed to promote the accurate quantification and reporting of liabilities and contingent liabilities.

The planning phase of the audit involved various procedures including: documentation review and interviews/teleconferences with representatives from the following regions/sectors: Alberta, Atlantic, Nunavut, Contaminated Sites Program, Environmental Directorate, Corporate Accounting and Reporting Directorate and LMRB.

Audit criteria were determined based on information gathered during the planning and risk assessment phase during the period of January 2009 through March 2009. The audit criteria served as the basis for developing the audit approach and detailed audit program for the conduct phase. The audit criteria are provided in Annex A.

During the examination phase of the audit, the activities in four (4) regional offices including Yukon, NWT, Ontario and Atlantic as well as HQ, LMRB, Specific Claims Branch and the Implementation Branch were examined in detail during the period of March through May 2009.

The principal audit techniques used included:

- *Documentation Review* – the documentation that was subject to examination included, but was not limited to, policies, directives, frameworks, and procedures relevant to PAYEs, Environmental Liabilities (Contaminated Sites), Comprehensive Land Claims, Specific Claims and General Litigation Claims.
- *Compliance Testing* – audit testing was conducted using an audit program designed to assess compliance with the audit criteria (see Annex A) established for each category of liabilities. Samples selected for each major category of liabilities were as follows:
 - Accounts Payable and Accrued Liabilities – The files for 50 PAYEs were examined. Samples were drawn from across the 4 regions visited and from HQ.
 - Environmental Liabilities – The files for 20 contaminated sites were selected for testing. Samples were drawn from each of the 4 regions visited.
 - Claims and Litigation – The files for 21 claims were selected for testing. Of this sample there were 3 Comprehensive Land Claims, 8 Specific Claims and 10 General Litigation Claims. Samples were drawn from LMRB records.
- *Interviews* – interviews were conducted at HQ with representatives from the Contaminated Sites Directorate, Environmental Directorate, LMRB, Specific Claims and the Implementation Branch. Furthermore, interviews were conducted at each of the 4 regions visited with management and staff responsible for the estimating, recording and reporting of liabilities. Interview guides were developed for interviews conducted, taking into consideration the objectives of the audit and the audit criteria developed.

5.0 Conclusions

AES is unable to provide assurance to senior management regarding the adequacy and effectiveness of those management controls designed to promote the accurate quantification and reporting of liabilities and contingent liabilities. This conclusion is based on substantive tests and other audit procedures which revealed gaps in the sufficiency of supporting documentation, control process weaknesses and inconsistencies across regions.

6.0 Observations and Recommendations

6.1 Organizational Structure

The lack of direct reporting relationship between Regional Finance Officers and the CFO Sector and differences in the finance organizational structure and capacities between regions can impact on the reliability of financial controls.

A number of audit observations can be linked to the challenges associated with the organizational structure within the Department. Accounts payable, accrued liabilities and Environmental Liabilities are driven by regional activities/responsibilities. Consistent with recent internal audits completed by AES, the reporting relationships between regional and HQ finance/accounting functions can lead to inconsistencies across regions and potential gaps in control practices and related priorities. For example, the lack of monitoring/oversight performed by the CARD surrounding the accuracy and completeness of PAYEs resulted in significant unsubstantiated PAYE balances in many regions. Given the materiality of Departmental liabilities and the significant role of regions in determining Departmental liabilities, there is a considerable risk that the current organizational structure may not promote the consistent rigor and discipline required to ensure reliable controls related to liabilities identification and reporting across the Department.

Recommendation #1:

Key stakeholders, at both the regional and HQ levels, with liability identification, quantification and reporting responsibilities should assess the structure of current reporting relationships and accountabilities with a view to clarifying expectations, identifying gaps and initiating changes as appropriate. In particular, Management should consider opportunities to strengthen the linkage between accounting functions in the regions and the CFO Sector at HQ as a means to improve the reliability of controls associated with liabilities.

6.2 Financial Expertise/ Capabilities in the Regions

There is an apparent gap between the available and required financial expertise/capabilities in the regions relative to their role in the reliable quantification and reporting of liabilities and contingent liabilities.

As noted earlier, the Department's liabilities are not only significant in terms of dollar value, but they are complex in nature. The complexities are related to nearly all aspects

of the capturing, validation, valuation and reporting of liabilities. Given the decentralized nature of INAC, the reliability of reported liabilities is directly related to the level of expertise and experience of regional staff involved in the capturing, valuing, validation or reporting of liabilities. This is particularly true in respect of Environmental Liabilities whereby the expectation is that regional staff has a working knowledge of relatively complex accounting policies, costing protocols, documentation protocols and related regulatory requirements applicable to liabilities for contaminated sites. Further, to effectively capture, validate, value and report regional PAYEs, regional staff is expected to have a sound understanding of related TBS and INAC policies regarding the appropriate accounting and reporting of PAYEs as well as of applicable CICA guidance. These expectations have been further elevated as the Department moves toward stand-alone audited financial statements. Examples of key activities that could be noted in a strong control environment include: timely identification of all liabilities, accurate and current valuation of liabilities, and complete and accurate reporting of liabilities.

A number of the observations described later in this report can be linked to this apparent gap between the available and required financial expertise/capabilities in the regions.

This gap could manifest itself in the form of the following weaknesses:

- Improper classification of expenditures when evaluating Environmental Liabilities
- Improper discounting of estimated future remediation costs and
- Insufficient documentation supporting the estimates made in determining both Environmental Liabilities and PAYEs.

Given the significance of the Departments liabilities, any combination of these weaknesses could lead to a material misstatement of the Departmental financial statements.

Recommendation #2:

As Environmental Liabilities and PAYEs are the responsibility of different groups:

- A. The Northern Affairs Organization (NAO) Northern Contaminated Sites Program (NCSP) and the IIA Contaminated Sites Management Program should clearly identify the required skills and experience based on the liabilities-related job responsibilities of regional staff. Together with Regional Management, training sessions, materials and other tools should be developed and be rolled-out across all Regions to ensure that regional staff have a clear understanding of the applicable policies and regulations (Environmental Liabilities).**

B. The Corporate Accounting and Reporting Directorate should clearly identify the required skills and experience based on the liabilities-related job responsibilities of regional staff. Together with Regional Management, training sessions, materials and other tools should be developed and rolled-out across all Regions to ensure that regional staff have a clear understanding of the applicable policies and regulations (Accounts Payable and Accrued Liabilities).

6.3 PAYEs (Accounts Payable & Accrual Liabilities)

Payables at Year-End (or PAYEs) are liabilities incurred during the fiscal year, but not yet been paid by the Department at the fiscal year-end. There are a number of criteria that must be met before an obligation meets the definition of a PAYE and therefore can be charged as an expense against a fiscal year's appropriation. Each of the following criteria must be met, as at March 31st, in order for an obligation to meet the definition of a PAYE:

- The work resulting in the obligation has been performed
- The goods, or services, associated with the obligation have been received or rendered
- The amount owing is in accordance with a contract signed on or before March 31st
- The debt is a lawful charge to the appropriation and can be fully coded.

There are two types of PAYEs:

PAYE A (Accounts Payable) – Represents liabilities associated with invoices/ notifications received from suppliers during the month of April that relate to expenditures incurred by the Department prior to March 31st of the prior fiscal year.

PAYE B (Accrued Liabilities) – As above, except that no invoice was received by the end of April. The amount of the liability must be estimated.

6.3.1 Regional compliance with Year-end Procedures

Each year the Corporate Accounting and Reporting Directorate (CARD) circulates the “Year-End Timetable and Procedures” to all regions. This document is designed to facilitate the year-end reporting cycle and to ensure that all Regional staff have a clear understanding of the PAYE requirements. Regional Finance/Accounting Operations is required to gather outstanding commitments from all Responsibility Centre Managers (RCMs) within their respective region. At year-end, information concerning these commitments is forwarded to the CARD which is responsible for providing an oversight role on the accuracy and completeness of PAYEs.

6.3.1.1 Supporting Documentation

Regions are not consistently ensuring that documentation is maintained to support the amounts of PAYE reported to HQ.

The review of regional PAYE files indicated that regional staff are not correctly applying TBS and INAC Policies for the reporting of PAYEs. Both the TBS Policy on Payables at Year-End and INAC's Financial Management Manual (FMM) *Chapter 8.7 Payables at Year-End* clearly state that "a record of correspondence, conversation, rationale and calculations used to make an estimate must be prepared and kept available for audit". In one region, testing revealed that 8 out of 10 PAYEs sampled were not adequately supported. These 8 PAYEs totaled over \$17M.

Without sufficient supporting documentation, there is no evidence to demonstrate that the PAYEs reported to HQ are appropriate and, as such, these files failed to comply with TBS and INAC Policies for the reporting of PAYEs.

6.3.1.2 Review of Carry forward PAYEs

RCMs are not consistently evidencing their review of PAYEs established in previous years to identify those that are still liabilities and those that need to be unencumbered; signatures and explanations for carry forward balances are not consistently maintained; and tracking of carry forward PAYE balances and any residual balances is not adequately performed and maintained.

According to the *Year End Timetable and Procedures*, Regional Finance Officers must carefully review the listing of outstanding PAYEs and process any necessary clearing or correcting entries in order to identify which PAYEs are to be carried forward to the following fiscal year. Such information must be obtained by the respective RCMs as they are in the best position to identify which, if any, commitments remain outstanding.

In one region, none of the carry forward balances selected for testing, totaling \$82M, were supported by evidence of review by the respective RCM. In this instance, certain carry forward balances were dated as far back as 2000-2001. Without proper review and tracking of prior year's PAYEs, balances may be inappropriately carried forward resulting in the inaccurate reporting of liabilities and an increased risk of having the Department pay an obligation that is no longer valid.

Recommendation #3:

In addition to providing the year-end timetable and procedures, the CARD should ensure that each region obtains adequate training and a clear understanding of

their roles and responsibilities associated with reporting PAYEs at year-end. This additional guidance and training should clearly outline expectations surrounding:

- Documentation standards required to support a PAYE balance
- Documentation to support the review and approval by RCMs of carry forward balances and
- Minimum standards for tracking PAYE balances as they are drawn-down or unencumbered throughout the year(s).

6.3.2 National/Regional Monitoring of Compliance with PAYE Requirements

PAYEs may be processed that do not represent legitimate liabilities for the Department, thereby under/overstating the Department's liabilities.

Year-end procedures and guidance provided by the CARD do not require that supporting documentation be reviewed by Regional Finance. Further, it was noted that Accounting Operations/Transfer Payments Directorates in some regions do not undertake quality assurance reviews to ensure that only those obligations that meet the PAYE criteria are reported to HQ. In one region it was noted that a PAYE selected for testing was understated by \$505K based on the documentation intended to support the PAYE. This variance was not challenged by Accounting Operations within the region and, as such, the region under committed funds for the period.

CARD also provides little or no quality assurance on the liability balances reported by the regions. Regional staff and representatives from the CARD interviewed by AES indicated that there was minimal questioning of balances reported to HQ. In the absence of independent scrutiny, there is an increased risk of errors in the accounts and/or non-compliance with TBS and INAC policies.

Recommendation #4:

The CARD should clearly outline Regional Accounting Operations/Transfer Payment Directorates' roles and responsibilities for reviewing PAYEs to ensure that estimates made are reasonable, appropriately supported and are in compliance with TBS and INAC Policies prior to submission to HQ.

Recommendation #5:

The CARD should undertake quality assurance reviews as part of their compilation of PAYE balances from the regions at year-end. A review for reasonableness of recorded amounts and follow-up on unusual items should be performed.

6.4 Environmental Liabilities

With a financial liability of approximately \$1.5 billion reported for contaminated sites as of March 31, 2008, INAC has the largest contaminated sites liability among federal departments with most liabilities occurring in the North. The department is a key contributor to the Federal Contaminated Sites Action Plan (FCSAP) which addresses the remediation or management of federal contaminated sites resulting from the legacy of past practices. The department also has responsibilities in ensuring future liabilities to the Crown are prevented from the creation of new contaminated sites on land under its custodial responsibility.

The Department currently has two programs related to contaminated sites: Northern Affairs Organization's Northern Contaminated Sites Program (NAO-NCSP), and the Indian and Inuit Affairs Business Line's Contaminated Sites Management Program (IIABL-CSMP).

INAC is responsible for dealing with contamination resulting from the operations of others, including First Nation communities, abandoned mines in the North, its own operations, and the actions of individuals and/or organizations involved with lands being held by the department for land claims settlements with First Nations.

In the North (Yukon, NWT and Nunavut), the onus is on the Crown, represented by INAC in this case, to identify contaminated sites. Regional Contaminated Sites Program staff are responsible for identifying and evaluating liabilities associated with contaminated sites in the North. This information is submitted to the Northern Contaminated Sites Management Program at HQ. Northern Contaminated Sites Management Program staff at HQ will review regional submissions and forward the final liability/contingent liability to the CARD for financial reporting purposes.

In the South (all regions not in the North), the onus is on First Nations (FNs) to identify contaminated sites. Regional staff within the IIABL-CSMP are responsible to assist FN in obtaining funding and procuring the required expertise to assess the liabilities associated with contaminated sites in the South. While the onus for identifying contaminated sites is with the FNs, INAC staff in regional offices are expected to be proactive in working with FNs to ensure sites are identified and assessed in a timely manner. Further, INAC regional staff are also responsible for reviewing assessments completed by environmental experts. Information obtained by the regional offices is submitted to the Contaminated Sites Management Program at HQ (part of the Lands and Economic Development Sector). HQ staff review regional submissions and forward the final liability/contingent liability to CARD for financial reporting purposes.

The objective of both programs is to operationalize the departmental Contaminated Sites Management Policy.

6.4.1 Identification and Assessment of Contaminated Sites in the Regions

One region did not have a formal process in place to identify new contaminated sites.

As noted earlier, the northern and southern regional offices have different responsibilities in the identification and management of contaminated sites. For the northern regions, the onus is on the Crown to identify contaminated sites. In the South, the responsibility for identifying contaminated sites rest with FNs.

Although the onus of identifying contaminated sites in southern regions lies with FNs, regions have a responsibility to perform due diligence and respond promptly when such sites are identified. Sites may be identified through routine site visits to a FN by a Funding Services Officer, members of the community or a FN. Once a site is identified, it must be assessed in order to determine the Class (i.e. severity of contamination of the site) and determine the estimated remediation costs. With the exception of one region, the sites visited by AES, both in the south and the north, had formally documented and risk-based processes in place to identify and assess new contaminated sites. However, the level of detail and consistency of the documentation and processes across regions was lacking.

Staff in the Environmental Directorate of one region identified a lack of sufficient resources as the reason for not implementing a more proactive approach to identifying and reacting to identified contaminated sites. Until such time as an initial assessment is complete, the region is unable to evaluate the contamination or determine a reasonable estimate for remediation. As such, no liability is attributed to these sites. As a result of not identifying and completing assessments of contaminated sites in a timely manner, the Department's liabilities may be significantly under/overstated at year-end. Further, since remediation costs increase over time, a lack of timely response to contaminated sites will also increase the costs associated with future remediation.

Recommendation #6:

All regions should implement a formally documented and risk-based approach to identifying and assessing potential contaminated sites. To the extent that financial and human resource constraints pre-empt the timely identification and assessment of contaminated sites, management should consider identifying alternative options such as the sharing of resources between regions.

6.4.2 Preparation of Cost Estimates

HQ and regions each have responsibilities to implement the respective Contaminated Sites Programs of the North and the South. Overall program management and central agency reporting is administered at HQ jointly between: Regional Operations, the CFO Sector, and the Environmental Directorate/Contaminated Sites Program, with project management responsibility at the regional level. HQ sends out a call letter highlighting key milestone dates for reporting on Environmental Liabilities throughout the fiscal year. HQ also provides guidance on how expenditures are to be coded.

6.4.2.1 Documentation Standards for Cost Estimates

There is a lack of supporting documentation regarding Environmental Liabilities cost estimates (e.g. source of the cost estimate, rationale for the preferred remediation option).

The instructions provided by HQ to the regions do not clearly lay out the documentation expectations for cost estimates provided to HQ and to the FCSAP for reporting and funding purposes respectively. There is a lack of clear communication regarding expectations for providing documentation to support the cost estimates. Such documentation is essential in order to demonstrate the reliability of the cost estimates. Given the Department's environmental liability is reported at nearly \$1.5B, and that audit materiality for the stand-alone audit planned for 2010-11 is \$25M, it is clear that the Department must ensure 100% of its Environmental Liabilities are supported by sufficient documentary evidence.

To the extent there is a lack of documentation to support reported Environmental Liabilities, the Department is exposed to the risk that external auditors (the OAG) will not be able to substantiate the amounts reported by the Department within the \$25M materiality threshold. This means that the OAG may issue a qualified audit opinion with respect to the Department's Financial Statements.

6.4.2.2 Adjustments to Cost Estimates

Changes made to submitted cost estimates are not always communicated back to the region and, as such, regional staff were unable to explain why submitted cost estimates differed from reported liabilities.

Cost estimates submitted by regions to HQ can be adjusted prior to reporting in the Departmental financial statements. While it is reasonable that HQ functions, including the CARD, may receive or otherwise have access to additional information concerning

the submitted cost estimates, there is a risk that a lack of engagement with regional staff in the adjustment process will lead to inappropriate changes. As regional staff work closely with the environmental specialists and relevant cost estimates, their insight would appear to be valuable to the process.

Recommendation #7:

The Contaminated Sites Program (HQ) should clearly outline and communicate to the regions the documentation protocols for cost estimates. Each line item within a cost estimate should have supporting documentation (e.g. independent site assignment, contract bid, industry standard costs). The rationale used to determine a preferred remediation approach should be outlined and documented in order to appropriately link the selected remediation approach and estimated liability to the independent assessment obtained.

Recommendation #8:

The process to adjust cost estimates submitted by the regions should incorporate the engagement of the regional staff involved in providing those estimates.

6.5 Claims and Litigation

There are hundreds of claims and pending/threatened litigation cases outstanding against the Department. Some of these potential liabilities 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, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense is recorded in the financial statements.

There are three significant types of claims faced by the department: comprehensive land claims, specific claims, and general litigation claims.

Comprehensive Land Claims: The Implementation Branch within the Treaties and Aboriginal Government Sector is responsible for the negotiation and resolution of comprehensive land claims. Comprehensive land claims refer to unaddressed Aboriginal rights and title resulting in treaties between the federal government, Aboriginal groups and the relevant Provincial or Territorial government. At March 31, 2008 these claims were valued at approximately \$3.7B.

Specific Claims: The Specific Claims Branch within the Treaties and Aboriginal Government Sector is responsible for the resolution of specific claims and the management of settlement funding. A specific claim refers to a claim made by a FN against the federal government related to the administration of lands and other FN assets

and to the fulfillment of Indian treaties. At March 31, 2008 these claims were valued at approximately \$5.4B.

General Litigation Claims: LMRB within the Policy and Strategic Direction Sector is responsible for the management of the claims and litigation resolution process including claims related to Indian Residential Schools. They are responsible for liaising with the Department of Justice in resolving claims and litigations made against the Department as well as processing settlement awards. At March 31, 2008 these claims were valued at approximately \$1.5B.

Specific and comprehensive land claims were found to be supported by sound, and sufficiently documented, processes on a quarterly basis. These processes included analysis of historical claims of a similar nature and regular reviews for completeness and accuracy. Supporting documentation to substantiate the liabilities for settled claims was also found to be complete, accurate and subject to annual updates including present value calculations. The audit further identified sound controls over the identification and timely evaluation of known or potential Environmental Liabilities in the North (Yukon, NWT and Nunavut).

6.5.1 General Litigation Claims - Documentation

There is a lack of supporting documentation maintained to substantiate the estimated contingent liability for general claims and litigation.

FMM Chapter 7.10 (subsection 7.4.6) states that the ADM, equivalent or designate is to maintain appropriate accounting processes and supporting documentation to corroborate the assessment of expected outcomes and estimates of contingencies, or when an assessment or estimate can not be made, they are to document the reason for not providing an estimate.

3 of the 10 general litigation files selected for testing could not be substantiated due to insufficient documentation concerning the analysis, conclusion and valuation of the claim. Without substantiating documentation, the estimated contingent liabilities for these claims may be significantly under/overstated within the financial statements. Moreover, the Department will require such substantiation prior to the stand-alone audit of Departmental financial statements.

Recommendation #9:

LMRB should perform a review of all claim files to ensure that they meet the current requirements for documentation standards as outlined within the respective TBS and INAC policies.

7.0 Management Action Plan

Recommendations	Management Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. Key stakeholders, at both the regional and HQ levels, with liability identification, quantification and reporting responsibilities should assess the structure of current reporting relationships and accountabilities with a view to clarifying expectations, identifying gaps and initiating changes as appropriate. In particular, Management should consider opportunities to strengthen the linkage between accounting functions in the regions and the CFO Sector at HQ as a means to improve the reliability of controls associated with liabilities.</p>	<p>Over the last few years, the CFO Sector has been leading an 'audit readiness' initiative. A recent validation of controls documentation for Payables at Year End (PAYEs) and Environmental Liabilities noted similar gaps to those of the Internal Audit Report. The following actions are being undertaken to address the findings:</p> <p>The departmental approach is to clearly state the responsibilities and accountabilities of all stakeholders in departmental policies.</p> <p>PAYE's:</p> <p>The CFO sector has financial policy issuing authority and is currently revising its Payables at Year-end Policy and Procedures in consultation with stakeholders.</p> <p>The revised policy and procedures will clarify roles and responsibilities of stakeholders and the</p>	<p>Director General, Corporate Accounting and Materiel Management</p>	<p>March 31, 2010</p>

	<p>expectations for liability identification, quantification and reporting. The review will be completed for this fiscal year-end.</p> <p>Environmental Liabilities:</p> <p>The CFO will meet with the ADM's of Land and Economic Development (LED), Regional Operations (RO) and the Northern Affairs Office (NAO) to plan the development of a management control framework for Environmental Liabilities which will include the updating of INAC's Contaminated Sites Management Policy. The framework will be developed by June 30, 2010 along with an implementation plan.</p> <p>The control framework will be based on the requirements of the following:</p> <p>TBS Policies:</p> <ul style="list-style-type: none"> • Policy on Management of Real Property <p>TBS Standards and Directives</p> <ul style="list-style-type: none"> • Reporting Standard on Real Property • Directive on Contingencies • Draft guidance on accounting for liabilities related to contaminated sites. <p>TBS Accounting Standards:</p>	<p>(CAMM)</p> <p>CFO</p> <p>(with support of ADMs LED, RO and NAO)</p>	<p>June 30th, 2010</p>
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	<ul style="list-style-type: none"> • Accounting Standard 3.6 – Treasury Board – Contingencies; <p>Other:</p> <ul style="list-style-type: none"> • Federal Contaminated Sites Action Plan – Eligible Costs Guidance Document <p>PSAB</p> <ul style="list-style-type: none"> • CICA PS 3200; Liabilities • CICA PS 3300 Contingent Liabilities <p>Reporting relationships and the communication of roles and responsibilities between regions and HQ were identified in the October 2008 Evaluation of INAC’s Contaminated Sites Policy and Programming as issues facing the Indian and Inuit Affairs (IIA) Contaminated Sites Management (CSM) Program. The IIA CSM Program is currently conducting a Program Review to improve program performance and management and address those issues prior to the upcoming renewal.</p>	Director, Environment Directorate	March 31, 2010
<p>2. A. The Northern Affairs Organization (NAO) Northern Contaminated Sites Program (NCSP) and the IIA Contaminated Sites Management Program should clearly identify the required skills and experience based on the liabilities-related job responsibilities of regional staff. Together with Regional Management, training sessions, materials and other tools should be developed and be</p>	<p>The Contaminated Sites Program completed a training session for all staff on applicable policies and regulations relating to Environmental Liabilities at the upcoming Project Manager’s meeting (November 3-5th). As a result of this training session, the CSP’s <i>Accounting for Costs and Liabilities</i> corporate procedure will be</p>	Director, CSP	March 31, 2010

Liabilities).	<p>Corporate Accounting and Reporting Directorate, in consultation with Regional Managers of Accounting Operations, developed a standardized verification checklist as well as detailed procedures for all types of PAYEs (O&M, Salaries & Gs&Cs). The policy and procedures will also address the requirements for PAYEs that are carried forward from prior years. These elements will be included in the revised policy as well as the year-end procedures distributed to regions.</p> <p>Training to regions will be delivered via presentations on the new policy & procedures.</p>		
<p>3. In addition to providing the year-end timetable and procedures, the CARD should ensure that each region obtains adequate training and a clear understanding of their roles and responsibilities associated with reporting PAYEs at year-end. This additional guidance and training should clearly outline expectations surrounding:</p> <ul style="list-style-type: none"> - Documentation standards required to support a PAYE balance - Documentation to support the review and approval by RCMs of carry forward balances and - Minimum standards for tracking PAYE balances as they are drawn-down or unencumbered throughout the year(s). 			
<p>4. The CARD should clearly outline Regional Accounting Operations/Transfer Payment Directorates' roles and responsibilities for reviewing PAYEs to ensure that estimates made are reasonable, appropriately supported and are in compliance with TBS and INAC Policies prior to submission to HQ.</p>	<p>Discussions with regions on roles & responsibilities related to PAYEs occurred on November 3-4 & 5 at the Conference of Regional Managers of Accounting Operations. The agreed upon roles & responsibilities from the above consultations will be included in the revised policy and procedures.</p>	<p>Director General, CAMM</p>	<p>March 31, 2010</p>
<p>5. The CARD should undertake quality assurance reviews as part of their compilation of PAYE balances from the regions at year-end. A review for reasonableness of recorded amounts and follow-up on unusual items should be</p>	<p>The Corporate Accounting and Reporting in collaboration with Regional Accounting Services will undertake a review of PAYE account balances and undertake a quality assurance review on a</p>	<p>Director General, CAMM</p>	<p>March 31, 2010</p>

<p>performed.</p>	<p>sampling basis.</p> <p>The Corporate Accounting and Reporting Directorate will develop and implement a formal review and analysis of PAYE balances on an annual basis.</p>		<p>September 30, 2010</p>
<p>6. All regions should implement a formally documented and risk-based approach to identifying and assessing potential contaminated sites. To the extent that financial and human resource constraints pre-empt the timely identification and assessment of contaminated sites, management should consider identifying alternative options such as the sharing of resources between regions.</p>	<p>The Treasury Board definition of a contaminated site is a site at which substances occur at concentrations: (1) above background levels and pose or are likely to pose an immediate or long-term hazard to human health or the environment or (2) exceed levels specified in policies and regulations. Each contaminated site is classified using the CCME National Classification System (NCS) a scientific risk-based evaluation to allow the program to prioritize sites.</p> <p>The Nunavut and Northwest Territories regional offices will produce a Site Assessment Action Plan to document the Program's approach to addressing the assessment of remaining suspected sites with consideration for the resource requirements, number of sites and remote location. The Yukon's assessment plan is dictated by the Yukon Devolution Transfer Agreement effective April 1, 2003.</p> <p>The Regional Directors will report on the progress against their site assessment action plan on an</p>	<p>Director, CSP – NU</p> <p>Director, CSP – NWT</p>	<p>January 31, 2010</p>

	<p>annual basis.</p> <p>The IIA CSM Program does not currently have a nationally consistent, documented and risk-based approach to identifying potential contaminated sites. The development of such an approach will be addressed as part of the CSM Program Renewal in fiscal year 2010-2011.</p> <p>The IIA CSM Program is currently undertaking a risk-based approach to the assessment and remediation of contaminated sites as part of the FCSAP funding process. Contaminated Sites are classified according to the CCME National Classification System for Contaminated Sites, which categorizes contaminated sites according to risk to human health and the environment. Contaminated sites are then managed on a priority basis.</p> <p>Headquarters is conducting a Program Review of the IIA CSM Program in partnership with regional staff. This Review will address the issue of consistency of documentation and data collected in contaminated sites management activities across the country. It will also establish clear targets in order to facilitate the timely assessment and remediation of sites and implement performance indicators to gauge progress.</p>	<p>Director, Environment Directorate</p>	<p>March 31, 2011</p>
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	<i>Costs and Liabilities</i> corporate procedure will be revised to include the requirement for approval of the final liability report by the Director's Committee prior to submission.	Regional Directors	
9. LMRB should perform a review of all claim files to ensure that they meet the current requirements for documentation standards as outlined within the respective TBS and INAC policies.	<p>LMRB, in conjunction with Department of Justice, will review all estimated amounts for each claim, in order to ascertain that it is supported by proper documentation.</p> <p>Furthermore, emphasis will be put on comprehension and understanding of the criteria for assessing the outcome of each claim. This step should reinforce the accuracy of reporting on the likelihood that claims materialize.</p>	Manager, Business Centre, SPR, LMRB, PSD	Q2 of FY 2009-10

Annex A – Audit Criteria

Obj #	Risk	High Level Control Objective	Control Activity	Source
Accounts Payable and Accrued Liabilities				
1	Accounts Payables/Accrued Liabilities are not recorded completely and accurately on the balance sheet, thereby under/overstating the Department's liabilities.	Accounts Payables/Accrued Liabilities are recorded completely, accurately, and in the proper accounting period.	1.1 - RCMs review their commitments to identify those payables for which they initiated the expenditure and which meet established PAYE criteria.	FMM 8.7 (7.1a)
			1.2 - RCMs review PAYE's established in previous years to identify those that are still liabilities and those that need to be closed.	FMM 8.7 (7.1b)
			1.3 - At year-end a search for unrecorded liabilities is performed to ensure the liability balance within the region is complete.	Best Practice
		Only liabilities that meet the requirements, as outlined within the Department's FMM, are recorded as PAYEs	1.4 - RCMs certify under section 34 of the Financial Administration Act for those items that meet PAYE criteria.	FMM 8.7 (7.1b)
			1.5 - Director of Corporate Services certify that their region has fully complied with Treasury Board Manual, Chapter 5-05, Policy on Payables at Year-End (PAYE) via a letter of representations that is provided to HQ at year-end.	Year-end Timetable and Procedures
2	Accounts Payables/Accrued Liabilities are not recorded accurately on	Headquarters performs procedures to ensure Accounts Payable and Accrued Liabilities are recorded completely, accurately, and in the	2.1 - The Manager, Corporate Reporting and Compliance provides the regions with adequate guidance surrounding the year-end accrual procedures.	Best Practice

	the balance sheet, thereby under/overstating the Department's liabilities.	proper accounting period	2.2 - The Manager, Corporate Reporting and Compliance reviews the regional and sectoral listings of A/P and PAYEs for reasonableness and compliance with applicable policies and directives.	Best Practice
			2.3 - The Manager, Corporate Reporting and Compliance inquires with the regions and sectors of any unusual items noted.	Best Practice
Settled Claims				
3	Liabilities related to settled claims are not complete and accurate at year-end	Settled Claims are reviewed, on a reasonable basis, for completeness and accuracy	3.1 - A representative at HQ reviews the listing of settled claims for completeness.	Best Practice
			3.2 - A representative at HQ performs a reconciliation of claims settled and payments made throughout the year.	Best Practice
Environmental Liabilities				
4	Lack of proper training, tools, capacity and resources may lead to non-compliance with INAC and TBS policies and directives	Regions/Sectors/Braches have adequate training, tools, capacity and resources to support effective/efficient compliance with applicable INAC and TBS policies and directives	4.1 - The ADM, Corporate Services, will issue an annual call letter and guidance on how programs and regions are required to provide year-end reporting requirements for contaminated sites.	7.10.1 (6.5b)
5	Environmental Liabilities may not be complete and accurate thereby under/overstating the Department's liabilities	Assessments performed result in accurate and complete recognition of environmental liabilities held by the Department	5.1 - A review process is in place to ensure that the Environmental Consultants selected to perform a site assessment are adequately trained and possess the necessary qualifications to provide an appropriate action plan for remediation, where deemed necessary (southern & northern regions).	Best Practice

			5.2 - An independent review is performed on the most significant contaminated sites to ensure accuracy and completeness of the assessment performed (northern regions).	Best Practice
		Environmental Liabilities are complete and accurate	5.3 - Regional Staff perform site visits and enquiry with FN to ensure that all contaminated sites are identified in a timely manner.	Best Practice (Interview Results)
			5.4 - The Environmental Program Officer at HQ produces a cost liability report (crystal report) that is reviewed to ensure that liabilities for all sites are accounted for.	Best Practice
6	Estimates made to value environmental and contingent liabilities are not supported and therefore may be inaccurate	Estimated valuation of environmental and contingent liabilities is appropriately supported and documented	6.1 - Assessments made are appropriately supported and documented for each site.	Best Practice
7	Regions/Sectors/Branches are not in compliance with INAC policies and procedures	Audits and Evaluations are performed to ensure compliance with INAC policies and procedures	7.1 - NAP (Northern Affairs Program) conducts regular program audits and evaluations to determine compliance with Corporate Procedure requirements, EHS regulatory requirements and the department's progress towards the Contaminated Sites Program objectives and targets.	Northern Affairs - Contaminated Sites Program - New Corporate Procedures Manual
Claims and Litigation				
General Litigation				
8	Lack of timely review of General Litigation Claims could result in an under/overstatement of	General Litigation Claims are reviewed for completeness and accuracy by the Department	8.1 - General Litigation Claims - LMRB monitors cases on a regular basis and significant cases are updated at a minimum annually.	FMM 7.10 Appendix A

	contingent liabilities		8.2 - General Litigation Claims - A reconciliation is performed on a quarterly basis from iCase (DoJ database) to the National Case Inventory.	Best Practice
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Specific Claims				
9	Estimates made to value contingent liabilities related to Specific Claims are not supported and therefore may be inaccurate	Estimated valuation of contingent liabilities related to Specific Claims is appropriately supported and documented	9.1 - Specific Claims - Assumptions, business rules and historical acceptance rates used in the determination of management's best estimate are documented and maintained on file by the Specific Claims Branch.	FMM 7.10 Appendix B Best Practice
Comprehensive Land Claims				
10	Lack of timely review of Comprehensive Land Claims could result in an under/overstatement of contingent liabilities	Comprehensive Land Claims are reviewed for completeness and accuracy by the Department	10.1 - Comprehensive Land Claims - The Comprehensive Claims Branch monitors the status of each claim on a regular basis and the assessed outcome is updated for any changes in circumstances that may impact the likelihood of settlement for each reporting period.	FMM 7.10 Appendix C Best Practice
	Estimates made to value contingent liabilities related to Comprehensive Land Claims are not supported and therefore may be inaccurate	Estimated valuation of contingent liabilities related to Comprehensive Land Claims is appropriately supported and documented	10.2 - Assessments of the potential outcome and the estimate of the contingent liability is appropriately supported and documented for each claim. If an assessment of estimated liabilities can not be made, then an explanation is documented.	FMM 7.10 Appendix C Best Practice

Non-Litigation Claims including Special Claims				
11	Lack of timely review of Non-Litigation Claims could result in an under/overstatement of contingent liabilities Estimates made to value contingent liabilities related to Non-Litigation Claims are not supported and therefore may be inaccurate	Non-Litigation Claims are reviewed for completeness and accuracy by the Department Estimated valuation of contingent liabilities related to Non-Litigation Claims is appropriately supported and documented	11.1 - Non Litigation Claims - Each Sector and for Special Claims, the Special Claims Directorate/Human Resources Branch monitor the status of each non-litigation claim on a regular basis and the assessed outcome is updated for any changes in circumstances that may impact the likelihood of settlement.	FMM 7.10 Appendix D Best Practice
			11.2 - Assessments of the potential outcome and the estimate of the contingent liability is appropriately supported and documented for each claim. If an assessment of estimated liabilities can not be made, then an explanation is documented.	FMM 7.10 Appendix C Best Practice
General - Contingent Liabilities				
12	Contingent Liabilities are not recorded accurately and completely in the financial statements (valuation and classification)	Contingent Liabilities are assessed for reasonableness and are recorded completely, accurately, and in the proper accounting period.	12.1 - The Director, Financial Policies, Systems and Accounting Director is responsible for reviewing information submitted from Sectors/Branches/Regions for reasonableness and compliance with applicable policies and directives.	FMM 7.3.11
			12.2 - ADM or designated equivalent reviews all contingencies within their Sector/Branch/Region to ensure completeness, accuracy and reliability of the information related to contingencies provided by his/her Sector/Branch/Region.	FMM 7.4.2

			12.3 - ADM or designated provides assurance on the information reported each quarter by his/her Sector/Brach/Region by means of certification.	FMM 7.4.3
All Liabilities				
13	Lack of training/knowledge may lead to inaccurate estimates/calculations thereby under/overstating the Department's liabilities	Regions/Sectors/Braches/HQ have adequate training and tools to perform they assigned tasks	13.1 - Individuals responsible for recording and/or reporting liabilities possess the adequate skills, knowledge and training required to perform their assigned tasks.	Best Practice
14	Unclear roles and responsibilities could lead to errors in the recognition and recording of liabilities, thereby under/overstating the Department's liabilities	Accountability and responsibilities are clearly understood by all parties	14.1 – A process exists to articulate, communicate and ensure a clear understanding of roles and responsibilities to all parties involved in the recognition and reporting of liabilities by the appropriate authorities (HQ/Sectors/Regions) thereby ensuring compliance with the INAC and TBS policies	Best Practice