



INDEPENDENT AUDITOR'S REPORT

To the Chair of the National Energy Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Energy Board (the Board), which comprise the statement of financial position as at 31 March 2019, and the statement of operations and net financial position, statement of change in net debt and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Board as at 31 March 2019, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 13 in the financial statements, which describes the intended dissolution of the Board. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the National Energy Board coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Section 24.1(1) of the *National Energy Board Act* and the National Energy Board Cost Recovery Regulations.

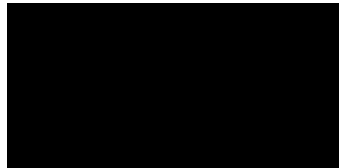
In our opinion, the transactions of the National Energy Board that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the National Energy Board's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the National Energy Board to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



David Irving, CPA, CA
Principal
for the Interim Auditor General of Canada

Edmonton, Canada
21 June 2019



National Energy
Board

Office national
de l'énergie

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2019 and all information contained in these statements rests with the management of the National Energy Board (NEB). Management is responsible for the preparation of the accompanying financial statements using the Government's accounting policies, which are based on Canadian Public Sector Accounting Standards.

Management is responsible for the integrity and objectivity of the information in these 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 NEB's financial transactions. Management is responsible for ensuring that financial information submitted in the preparation of the Public Accounts of Canada, and included in the NEB's *Departmental Result Report* is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the NEB and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustment.

The NEB is subject to periodic Core Control Audits performed by the Office of the Comptroller General and uses the results of such audits to to comply with the Treasury Board Policy on Financial Management.

A Core Control Audit was performed in 2017–18 by the Office of the Comptroller General of Canada (OCG). The Audit Report and related Management Action Plan are posted on the departmental web site at <https://www.neb-one.gc.ca/bts/pblctn/dtrrprtndnbfnnclsttmnt/index-eng.html>.

The Auditor General of Canada, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the financial statements of the NEB which does not include an audit opinion on the annual assessment of the effectiveness of the department's internal controls over financial reporting.

The original version was signed by

The original version was signed by

C. Peter Watson, P.Eng.
Chair and CEO

Mark Power, CPA, CGA, CIA, MBA
Chief Financial Officer

Calgary, Canada
21 June 2019

NATIONAL ENERGY BOARD

Statement of Financial Position

As at March 31

(in thousands of dollars)

	2019	2018
Liabilities		
Accounts payable and accrued liabilities (Note 5)	15,800	24,532
Due to the Consolidated Revenue Fund (Note 7)	363	393
Vacation pay and compensatory leave	4,029	4,031
Employee benefits (Note 6)	5,645	5,731
Total liabilities	25,837	34,687
Financial assets		
Due from the Consolidated Revenue Fund	15,800	24,532
Accounts receivable and advances (Note 7)	48,181	30,764
Total financial assets	63,981	55,296
Financial assets held on behalf of Government (Note 7)	(47,818)	(30,371)
Total net financial assets	16,163	24,925
Net debt	9,674	9,762
Non-financial assets		
Prepaid expenses	747	690
Tangible capital assets (Note 8)	16,903	20,043
Total non-financial assets	17,650	20,733
Net financial position	7,976	10,971

Contractual obligations and contingent liabilities (Note 9)

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

The original version was signed by

The original version was signed by

 C. Peter Watson, P.Eng.
 Chair and CEO
 Calgary, Canada
 21 June 2019

 Mark Power, CPA, CGA, CIA, MBA
 Chief Financial Officer

NATIONAL ENERGY BOARD

**Statement of Operations and Net Financial Position
For the Year Ended March 31**

(in thousands of dollars)

	2019 Planned Results (Note 2a)	2019	2018
Expenses			
Energy Adjudication	27,170	27,226	28,832
Safety and Environment Oversight	31,346	27,682	27,573
Energy Information	7,036	11,224	12,108
Engagement	4,667	7,163	5,762
Internal Services (Note 11)	24,174	51,097	32,847
Total expenses	94,393	124,392	107,122
Revenues			
Regulatory revenue	81,724	108,210	103,262
Miscellaneous revenue	120	75	38
Revenues earned on behalf of Government	(81,844)	(108,285)	(103,300)
Total revenues	-	-	-
Net cost of operations before government funding and transfers	94,393	124,392	107,122
Government funding and transfers			
Net cash provided by Government	93,905	116,769	90,599
Change in due from the Consolidated Revenue Fund	(15,171)	(8,702)	2,742
Services provided without charge from other government departments (Note 10)	13,384	13,330	13,560
Net cost of operations after government funding and transfers	2,275	2,995	221
Net financial position – Beginning of year	14,281	10,971	11,192
Net financial position – End of year	12,006	7,976	10,971

Segmented information (Note 12)

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

NATIONAL ENERGY BOARD

Statement of Change in Net Debt
For the Year Ended March 31
(in thousands of dollars)

	2019 Planned Results (Note 2a)	2019	2018
Net cost of operations after government funding and Transfers	2,275	2,995	221
Change due to tangible capital assets (Note 8)			
Acquisition of tangible capital assets	542	1,914	2,887
Amortization of tangible capital assets	(3,247)	(5,055)	(4,531)
Total change due to tangible capital assets	(2,705)	(3,141)	(1,644)
Change in prepaid expenses	260	57	(417)
Net decrease in net debt	(170)	(89)	(1,840)
Net debt - Beginning of year	5,904	9,762	11,602
Net debt - End of year	5,734	9,673	9,762

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

NATIONAL ENERGY BOARD

Statement of Cash Flows
For the Year Ended March 31
(in thousands of dollars)

	2019	2018
Operating activities		
Net cost of operations before government funding and transfers	124,392	107,122
Items not affecting cash:		
Amortization of tangible capital assets (Note 8)	(5,055)	(4,531)
Services provided without charge by other government departments (Note 10)	(13,330)	(13,560)
Variations in Statement of Financial Position:		
Change in accounts receivables and advances	(30)	(237)
Change in prepaid expenses	57	(417)
Change in accounts payables and accrued liabilities	9,575	(472)
Change in vacation pay and compensatory leave	2	(490)
Change in employee benefits	86	(86)
Cash used in operating activities	115,697	87,329
Capital investing activities		
Acquisitions of tangible capital assets	1,072	3,270
Cash used in investing activities	1,072	3,270
Net cash provided by Government of Canada	116,769	90,599

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

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

1. Authority and objectives

The National Energy Board (NEB or the Board) is an independent federal quasi-judicial regulatory tribunal established in 1959 to promote safety and security, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament for the regulation of pipelines, energy development and trade. The Board is accountable to Parliament through the Minister of Natural Resources. The NEB was established under the *National Energy Board Act* (NEB Act) and is designated as a department and named under Schedule I.1 of the *Financial Administration Act*.

Additional information about the concordance between Strategic Outcomes, Program Alignment Architecture and Departmental Results Framework, Core Responsibilities can be found in the Departmental Plan. The Board's responsibilities can be framed into the following core responsibilities:

I. Energy Adjudication

Making decisions or recommendations to the Governor in Council on applications, which include environmental assessments, using processes that are fair, transparent, timely and accessible. These applications pertain to pipelines and related facilities, international power lines, tolls and tariffs, energy exports and imports, and oil and gas exploration and drilling in certain northern and offshore areas of Canada.

II. Safety and Environment Oversight

Setting and enforcing regulatory expectations for National Energy Board-regulated companies over the full lifecycle — construction, operation and abandonment — of energy-related activities. These activities pertain to pipelines and related facilities, international power lines, tolls and tariffs, energy exports and imports, and oil and gas exploration and drilling in certain northern and offshore areas of Canada.

III. Energy Information

Collecting, monitoring, analyzing and publishing information on energy markets and supply, sources of energy, and the safety and security of pipelines and international power lines.

IV. Engagement

Engaging with stakeholders and Indigenous Peoples on topics within the National Energy Board's mandate and role, beyond engagement on specific projects.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

1. Authority and objectives - continued

IV. Engagement – continued

As part of its Core Responsibilities, the NEB plans to engage actively and effectively with Canadians and Indigenous Peoples throughout the lifecycle of energy infrastructure projects. A stakeholder engagement program and an Indigenous engagement program were developed for this purpose. As a result of the activities undertaken through these programs, the NEB and its stakeholders will be better informed about issues relevant to the NEB and its mandate.

Specifically, Canadians and Indigenous Peoples will:

- Have a better understanding of the NEB’s mandate, roles, processes, and programs as a full life cycle regulator;
- Be aware of NEB actions taken to ensure and improve public safety and environmental protection with respect to regulated infrastructure; and
- Participate in NEB processes and programs that provide them with the opportunity to share their perspectives and provide feedback regarding the NEB and NEB-regulated activities.

V. Internal Services

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

The NEB regulates pipelines, power lines, energy development and energy trade. The NEB contributes to the safety of Canadians, the protection of the environment and efficient energy infrastructure and markets, while respecting the rights and interests of those affected by NEB decisions and recommendations. It is guided by the principles of natural justice and procedural fairness.

The Board is a court of record and has certain powers of a superior court with respect to the attendance, swearing and examination of witnesses; the production and inspection of documents; the enforcement of its orders; the entry on and inspection of property; and other matters necessary or proper for the due exercise of its jurisdiction. Aside from rare exceptions, the Board’s regulatory decisions and the accompanying Reasons for Decision are issued as public documents.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

1. Authority and objectives - continued

The financial statements of the National Energy Board have been prepared as at March 31 which corresponds with the Board's year-end. In accordance with Section 24.1 of the NEB Act, the Board may, for the purposes of recovering all or a portion of such costs as the Board determines to be attributable to its responsibilities under this or any other Act of Parliament, make regulations to impose fees, levies or charges. The National Energy Board Cost Recovery Regulations provide for the calculation and allocation of recoverable costs. Cost recovery calculations performed on a calendar year basis are included in a Schedule to these financial statements. The NEB is funded through parliamentary appropriations. The Government of Canada recovers approximately 98 percent (95 percent in 2017–18) of the appropriation from the regulated industry. The revenues are deposited directly into the Consolidated Revenue Fund. This process is regulated by the National Energy Board Cost Recovery Regulations.

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 NEB is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the NEB 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 Statement of Operations and Net Financial Position and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 4 provides a high-level reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" section of the Statement of Operations and Net Financial Position are the amounts reported in the 2018–19 *Departmental Plan*. The planned results amounts in the "Government funding and transfers" section of the Statement of Operations and Net Financial Position and in the Statement of Change in Net Debt were prepared for internal management purposes and have not been previously published.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

2. Summary of significant accounting policies - continued

b) Net cash provided by Government

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

c) Amounts due to or from the CRF

Amounts due to or from 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 NEB is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

- The NEB has the authority to charge those companies that it regulates, in accordance with sub-section 24.1 of the *National Energy Board Act*, the costs attributable to the NEB's operations in carrying out its responsibilities. Under the National Energy Board Cost Recovery Regulations (Regulations) approved by Treasury Board, effective January 1, 1991, the NEB recovers, from the companies that it regulates, the cost of its operations. Revenues from regulatory levies are recognized in the accounts when they are invoiced and, in accordance with the Regulations, are based on the estimated cost of operations for the calendar year, with a billing adjustment to actual costs once the costs are known. Actual costs are defined as the sum of one-quarter of year 1 audited fiscal costs (January to March) and three-quarters of year 2 audited fiscal costs (April to December). The recoverable costs for a given calendar year are allocated to the oil, gas and electricity commodities proportionately on the basis of the actual time spent by Board members and employees during the preceding fiscal year (April 1 to March 31).
- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
- Revenues that are non-respendable are not available to discharge the NEB's liabilities. While the Chair is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the NEB's gross revenues.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

2. Summary of significant accounting policies – continued

e) Expenses

Expenses are recorded on the accrual basis.

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal and audit services and payroll and banking services are recorded as operating expenses at their carrying value of the providing entity. Services received without charge are recoverable costs under the Cost Recovery Regulations.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program.
- Expenditures of the NEB that are excluded from Cost Recovery Regulations are those expenditures related to the regulation of, exploration for, and the development of oil and gas on frontier lands and offshore areas and are disclosed in Schedule A.

f) Liabilities

Liabilities are financial obligations of the NEB to outside organizations and individuals as a result of events and transactions that occurred on or before year end. They are the result of contracts, agreements and legislation in force at year end that require the NEB to repay borrowings or to pay for goods and services acquired or provided prior to year-end.

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within six months of year-end.

g) Employee benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan (Plan), a multiemployer pension plan administered by the Government of Canada. The NEB contributions to the Plan are charged to expenses in the year incurred and represent the total Board obligation to the Plan. The NEB'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.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

2. Summary of significant accounting policies – continued

g) Employee benefits– continued

- ii. Health and dental benefits: The Government of Canada sponsors employee benefit plans (health and dental) in which the NEB participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The NEB's contributions to the plans, which are provided without charge by the Treasury Board Secretariat, are recorded at carrying value of the providing entity. They represent the NEB's total obligation to the plans. Current legislation does not require the NEB to make contributions for any future unfunded liabilities of the plans.
- iii. Severance benefits: The accumulation of severance benefits for employees ceased in the 2012–13 fiscal year. The accrued benefit obligation is determined using employees' salaries at year-end and the number of weeks earned but unpaid for employees who have elected to defer the receipt of their full or partial severance benefits payment.
- iv. Sick leave benefits: Employees are eligible to accumulate sick leave benefits until the end of employment, according to their labour contracts and conditions of employment. Sick leave benefits are earned based on employee services rendered and are paid upon an illness or injury related absence. These are accumulating non-vesting benefits that can be carried forward to future years, but are not eligible for payment on retirement or termination, nor can these be used for any other purpose. A liability is recorded for unused sick leave credits expected to be used in future years in excess of future allotments, based on an actuarial valuation using an accrued benefit method.

h) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain. In addition, a distinction is made between financial assets that are available to discharge the NEB's liabilities versus the ones that are not. Accounts receivable that pertain to non-respondable revenues earned on behalf of Government are considered to be held on behalf of the Government of Canada and are therefore presented in the Statement of Financial Position as a reduction of the entity's gross financial assets.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

2. Summary of significant accounting policies - continued

i) Contingent liabilities

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

j) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more per unit, per bundle or purchased in bulk, are recorded at their acquisition cost. Tangible capital assets under development are recorded as assets under development and amortized when they become available for use. Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Informatics hardware:	
PCs and accessories	3 years
Computer servers & accessories	5 years
Informatics software	
Commercial software	2 years
In-house developed software	5 years
Machinery and equipment	5 years
Furniture	10 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

k) 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 in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

The most significant items where estimates are used are recoverable operating costs, contingent liabilities, useful life of tangible capital assets, allowance for doubtful accounts and sick leave benefit obligations.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

2. Summary of significant accounting policies - continued

k) Measurement uncertainty - continued

The liability for sick leave bene fits is actuarially determined and actual experiences could differ from the assumptions used in the calculations. The significant actuarial assumptions used in measuring the benefit obligation are disclosed in Note 6d.

l) Related party transactions

Related parties include key management personnel having authority and responsibility for planning, directing and controlling the activities of the NEB as well as their close family members. Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

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

m) Changes to accounting standards

PSAB issued new standards on Restructuring Transactions (PS 3430), effective April 1, 2018, which had no impact on its 2018–19 financial statements. Management is currently assessing the impact of this standard should the dissolution of the NEB occur (Note 13).

Foreign Currency Translation (PS 2601), Financial Instruments (PS 3450), Portfolio Investments (PS 3041) and Asset retirement Obligations (PS 3280) are effective April 1, 2021. The NEB does not expect these standards to have a significant impact on its financial statements. Revenues (PS 3400) is effective April 1, 2022, and the NEB is currently assessing the impact of this standard.

3. Financial Management Risk

Consistent with Section 32 of the *Financial Administration Act*, the Board's policy to manage liquidity risk is that no contract or other arrangement providing for a payment shall be entered into with respect to any program for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which the payment will be charged unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge any debt that, under the contract or other arrangement, will be incurred during the fiscal year in which the contract or other arrangement is entered into.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

3. Financial Management Risk- continued

The NEB's risk exposure and its objectives, policies and processes to manage and measure this risk did not change significantly from the prior year.

Liquidity risk is the risk that the Board will encounter difficulty in meeting its obligations associated with financial liabilities. The NEB's objective for managing liquidity risk is to manage operations and cash expenditures within the appropriation authorized by Parliament or allotment limits approved by the Treasury Board.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The NEB provides services to other government departments and agencies and to external parties in the normal course of business. Accounts receivable are due on demand. The NEB is not exposed to significant credit risk and has incurred very minimal credit losses in the past. The maximum exposure the NEB has to credit risk equal to the carrying value of its accounts receivables.

4. Parliamentary authorities

The NEB receives most of its funding through annual parliamentary authorities. The majority of these expenditures are subsequently recovered from the companies regulated by the NEB and the funds are deposited in the Consolidated Revenue Fund of the Government of Canada. Items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the NEB 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) Authorities provided and used

	2019	2018
	(in thousands of dollars)	
Authorities provided:		
Vote 1 – Program expenditures	91,399	90,230
Spending of proceeds from disposal of surplus assets	11	11
Statutory amounts – contributions to employee benefit plans	8,920	8,330
– Remission (Note 11)	14,710	-
<i>Less:</i>		
Appropriations lapsed	(6,934)	(5,169)
Current year authorities used	108,106	93,402

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

4. Parliamentary authorities - continued

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

	2019	2018
	(in thousands of dollars)	
	<u> </u>	<u> </u>
Net cost of operations before government funding and transfers	124,392	107,122
Adjustments for items affecting net cost of operations but not affecting authorities:		
Services provided without charge by other government departments (Note 10)	(13,330)	(13,560)
Amortization of tangible capital assets (Note 8)	(5,055)	(4,531)
Bad debt expense	(2)	-
Change in vacation pay and compensatory leave	2	(489)
Change in employee future benefits	86	(86)
Refund of prior years' expenditures	35	60
	<u>(18,264)</u>	<u>(18,606)</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets (Note 8)	1,915	2,887
Reversal of prior year accruals for collective agreement	-	2,416
Accountable advance	6	-
Change in prepaid expenses	57	(417)
	<u>1,978</u>	<u>4,886</u>
Current year authorities used	<u>108,106</u>	<u>93,402</u>

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

5. Accounts payable and accrued liabilities

	2019	2018
	(in thousands of dollars)	
Accounts payable to other government departments and agencies	1,265	1,156
Accounts payable and accrued liabilities to external parties	14,535	17,123
Billing adjustment – prior year	-	6,253
Total accounts payable and accrued liabilities	15,800	24,532

6. Employee benefits

a) Pension benefits:

All eligible NEB employees contribute to the public service pension plan (the “Plan”), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two 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 NEB contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups. Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013.

Each group has a distinct contribution rate. For Group 1 members, the expense represents approximately 1.01 times (1.01 times in 2017–18) the employee contributions and, for Group 2 members, approximately 1.00 times (1.00 times in 2017–18) the employee contributions. The 2018–19 expense amounts to \$6,180,108 (\$5,809,364 in 2017–18).

The NEB’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.

b) Health and dental benefits:

The NEB contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan which are sponsored by the Government of Canada. The NEB’s responsibility with regard to these plans is limited to its’ contributions (Note 10a).

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

6. Employee benefits - continued

c) Severance benefits:

The NEB provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. However, since 2012–13 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. These severance benefits are not pre-funded and benefits will be paid from future parliamentary authorities.

Information about severance benefits is presented in the following table as at 31 March:

	2019	2018
	(in thousands of dollars)	
Severance benefit, beginning of year	2,042	2,089
Expense for the year	20	342
Transfers during the year	(158)	-
Benefits paid during the year	(228)	(389)
Severance benefit, end of year	1,676	2,042

d) Sick leave benefits:

Employees are credited, based on service, a maximum of 15 days annually for use as paid absences due to illness or injury. The sick leave benefit obligation is unfunded and will be paid from future parliamentary authorities.

Annually, the NEB obtains an actuarial valuation of the accrued employee sick leave benefit obligation for accounting purposes. The most recent actuarial valuation was completed as of March 31, 2018. The results were extrapolated to March 31, 2019. The effective date of the next actuarial valuation is March 31, 2021.

Actuarial assumptions are used to determine the sick leave accrued benefit obligation. The assumptions are reviewed at 31 March of each year and are management's best estimate based on an analysis of the historical data up to the reporting date. The key assumptions used are: a discount rate of 1.72 percent (2.09 percent in 2017–18), which is based on an average yield of government borrowings over the expected average remaining service life of employees of 13.31 years (13.31 years in 2017–18); and a long term general rate of salary increase of 2.6 percent (2.6 percent in 2017–18).

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

6. Employee benefits - continued

d) Sick leave benefits - continued:

Information about sick leave benefits is presented in the following table as at 31 March:

	2019	2018
	(in thousands of dollars)	
	<hr/>	<hr/>
Sick leave benefit, beginning of year	3,689	3,556
Service cost	693	607
Interest cost	78	86
Benefit payments	(602)	(577)
Actuarial losses	110	17
Sick leave benefit, end of year	<hr/> 3,969 <hr/>	<hr/> 3,689 <hr/>

e) Summary information:

The table below summarizes the employee benefits liability:

	2019	2018
	(in thousands of dollars)	
	<hr/>	<hr/>
Severance benefits	1,676	2,042
Sick leave benefits	3,969	3,689
Employee benefits	<hr/> 5,645 <hr/>	<hr/> 5,731 <hr/>

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

7. Accounts receivable and advances

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

	2019	2018
	(in thousands of dollars)	
Receivables – External parties		
Outstanding provisional billings for current year	25,925	19,328
Billing adjustments: (Schedule A)		
Current year	10,854	11,190
Prior years	11,190	-
Prior year's outstanding balance	28	28
Receivables – Other government departments and agencies	211	245
Employee advances	145	143
	48,353	30,934
Allowance for doubtful accounts	(172)	(170)
Accounts receivable and Advances	48,181	30,764
Financial assets held on behalf of Government	(47,818)	(30,371)
Due to Consolidated Revenue Fund	363	393

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

8. Tangible capital assets
(in thousands of dollars)

Capital asset class	Cost				Closing balance
	Opening balance	Acquisitions	Adjustments (1)	Disposals & write-offs	
Informatics hardware	5,770	219			5,989
Informatics software	11,558	296	1,040		12,894
Machinery and equipment	3,076				3,076
Furniture	3,183				3,183
Vehicles	24				24
Leasehold improvements	15,797				15,797
Assets under development	1,082	1,399	(1,040)		1,441
Total	40,490	1,914	-	-	42,404

(1) Adjustments include assets under development of \$1,040,000 (\$1,902,747 in 2017–18) that were transferred to the other categories upon completion of the assets.

Capital asset class	Accumulated amortization				Net book value	
	Opening balance	Amortization	Disposals, write-offs & adjustments	Closing balance	2019	2018
Informatics hardware	3,379	894		4,273	1,716	2,391
Informatics software	8,531	1,730		10,261	2,633	3,027
Machinery and equipment	1,755	444		2,199	877	1,321
Furniture	1,201	314		1,515	1,668	1,982
Vehicles	5	5		10	14	19
Leasehold improvements	5,576	1,668		7,244	8,553	10,221
Assets under development					1,441	1,082
Total	20,447	5,055	-	25,502	16,902	20,043

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

9. Contractual obligations and contingent liabilities

a) Contractual obligations

The nature of the NEB's activities can result in some large multi-year contracts and obligations whereby the NEB will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	2020	2021	2022	2023 and thereafter	Total
Operational contracts	2,640	246	2	-	2,888

b) Claims and litigation

The NEB is a defendant in certain cases of pending and threatened litigation which arose in the normal course of business. The outcome of all litigation has been identified as undeterminable or unlikely to be lost. At year-end the NEB estimated the total claimed amount for which the outcome is not determinable to be approximately \$10,000 (\$50,000 in 2017-18). As at March 31, no provision for such claims has been made in these financial statements as it is not determinable that any future event will confirm that a liability has been incurred.

10. Related Party Transactions

The NEB is related as a result of common ownership to all government departments, agencies, and Crown Corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual. The NEB enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the NEB received services which were obtained without charge from other government departments as discussed below.

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

During the year the NEB received services without charge from certain common service organizations, related to accommodation, legal services and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recognized in the NEB's Statement of Operations and Net Financial Position as follows:

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

10. Related Party Transactions - continued

a) Common services provided without charge by other government departments - continued

	2019	2018
	<u>(in thousands of dollars)</u>	
Accommodation	7,855	7,801
Employer's contribution to health and dental insurance plans	5,072	5,269
Audit services	232	214
Payroll and banking services	-	55
Other professional and Special services	171	221
Total	<u>13,330</u>	<u>13,560</u>

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.

Based on an agreement between the NEB and Public Services and Procurement Canada (PSPC), PSPC incurred fit up costs for new office space related to the NEB office move which took place in 2014–15 which were recognized as leasehold improvements and are being amortized over the remaining term of the lease.

b) Other transactions with related parties:

	2019	2018
	<u>(in thousands of dollars)</u>	
Expenses – other government departments and agencies	10,498	10,035
Accounts payable (Note 5)	1,265	1,156
Accounts receivable (Note 7)	211	245

Expenses disclosed above exclude common services provided without charge, which are already disclosed in a. Expenses are mainly comprised of payments to Treasury Board for employee benefits, including superannuation.

11. Levy remission

Northern Gateway Pipelines Limited Partnership (NGPL) paid a levy of \$14,710,000 to the Federal Government after the project certificates were issued for the Northern Gateway pipeline project in 2014–15. On June 23, 2016, the Federal Court of Appeal quashed these certificates.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

11. Levy remission - continued

As a result, NGPL requested the levy be refunded and the Federal Government provided off-cycle funding in 2018–19 (Note 4(a)) to enable NEB to remit the \$14,710,000 to NGPL on behalf of the Federal Government. There is no authority to recover the remission payment from other pipeline companies. NEB recorded the payment of \$14,710,000 to NGPL as an other expense in Internal Services. The related funding was recorded as Net cash provided by Government in the year.

12. Segmented information

Presentation by segment is based on the NEB's Departmental Results Framework. 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 programs, by major object of expense and by major type of revenues. Revenues are allocated to each main program based on their share of total annual expenditures. The segment results for the period are as follows:

	2019					2018	
	Energy Adjudication	Safety and Environment Oversight	Energy Information	Engagement	Internal Services	Total	Total
	(thousands of dollars)						
Transfer Payments	4,880					4,880	2,454
Operating Expenses							
Salaries and employee benefits	17,837	20,848	7,136	4,936	23,259	74,016	74,211
Accommodation	1,844	2,241	768	587	4,000	9,440	9,618
Professional services	892	1,908	2,517	872	5,148	11,337	11,768
Travel	519	1,195	137	361	554	2,766	2,690
Amortization (Note 8)	1,226	1,430	493	376	1,530	5,055	4,531
Communication	28	54	1	24	891	998	1,199
Utilities and supplies	-	5	170	7	1,005	1,187	602
Other (Note 11)	-	1	2	-	14,710	14,713	49
Total expenses	27,226	27,682	11,224	7,163	51,097	124,392	107,122
Revenues							
Regulatory revenue	23,684	24,081	9,764	6,231	44,450	108,210	103,262
Miscellaneous revenue	15	17	7	4	32	75	38
Revenue earned on behalf of Government	(23,699)	(24,098)	(9,771)	(6,235)	(44,482)	(108,285)	(103,300)
Total revenues	-	-	-	-	-	-	-
Net Cost of Operations before government funding and transfers	27,226	27,682	11,224	7,163	51,097	124,392	107,122

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2019**

13. Subsequent Event

On June 21, 2019, Bill C-69 received Royal Assent. This is an Act to enact the *Impact Assessment Act* and the *Canadian Energy Regulator Act* (CER Act), to amend the *Navigation Protection Act* and to make consequential amendments to other Acts. The bill includes repealing the *National Energy Board Act* and replacing it with the new the *Canadian Energy Regulator Act* (CER Act). The CER Act will bring about a number of changes including a more modern governance structure with a Board of Directors, Commission and CEO.

As a result of this bill, it is expected that all assets, liabilities and unexpended appropriations of the NEB would be transferred to the Canadian Energy Regulator on the date the *Canadian Energy Regulator Act* comes into force. The going concern basis of accounting has been deemed appropriate for the preparation of the current financial statements as, under the proposed legislation, the NEB's assets and liabilities will be transferred to a related party and will continue to be utilized or settled in the normal course of operations.

14. Comparative Figures

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

National Energy Board
Schedule A
Allocation of Recoverable Operating Costs
For the Year Ended March 31, 2019

In accordance with the Cost Recovery Regulations recoverable operating costs are based on the expenditures for the calendar year. A calendar year is the period from January 1 to December 31. The operating costs for Calendar 2018 are from Schedule A of the fiscal year 2018–19 financial statements. The current year recoverable expenses are calculated using one quarter of recoverable expenses from the prior fiscal year and three quarters of recoverable expenses from the current fiscal year. The methodology used by management to determine actual costs is reviewed on a periodic basis and adjusted for significant events.

	2018 <i>(calendar 2018)</i>	2017 <i>(calendar 2017)</i>
	(in thousands of dollars)	
January to March expenses – 1/4 from previous fiscal year	26,780	24,497
April to December expenses – 3/4 from current fiscal year	93,296	80,341
Total calculated expenses for cost recovery purposes	120,076	104,838
Less: non-recoverable costs related to the regulation of Frontier Lands and review of Arctic safety and offshore drilling	(3,140)	(2,831)
Less: 3/4 non-recoverable remission payment (Note 11)	(11,033)	-
Recoverable operating costs	105,903	102,007

The allocation of recoverable operating costs to the commodities is based on actual time spent by Board members, officers and employees during the 2016–17 fiscal year (2015–16 for 2017):

	2018 <i>(calendar 2018)</i>		2017 <i>(calendar 2017)</i>	
	(in thousands of dollars)			
Gas	45.1%	47,756	45.9%	46,811
Oil	47.8%	50,615	49.2%	50,176
Electricity	7.1%	7,518	4.9%	4,997
	100%	105,589	100%	101,984
Commodity pipelines		14		23
Recoverable operating costs		105,903		102,007

National Energy Board
Schedule A
Allocation of Recoverable Operating Costs
For the Year Ended March 31, 2019

Billing Adjustment

	2018 <i>(calendar 2018)</i>	2017 <i>(calendar 2017)</i>	2016 <i>(calendar 2016)</i>
	(in thousands of dollars)		
Recoverable operating costs	105,903	102,007	93,158
Deduct: provisional billing	(95,049)	(90,817)	(101,467)
Billing adjustment	10,854	11,190	(8,309)

The billing adjustment represents the difference between the provisional billing and the actual recoverable operating costs. In accordance with Section 19 of the Regulations, the billing adjustment of \$10,854,015 for the current year and 11,190,391 for the prior year will be applied to the provisional billings of 2020 and 2019 respectively. The billing adjustments for 2018 and 2017 are included in accounts receivable.

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of National Energy Board for Fiscal Year 2018–19 (unaudited)

1. Introduction

In support of an effective system of internal control, the National Energy Board (NEB) annually assesses the performance of its financial controls to ensure that:

- Financial arrangements or contracts are entered into only when sufficient funding is available;
- Payments for goods and services are made only when the goods or services are received or the conditions of contracts or other arrangements have been satisfied; and
- Payments have been properly authorized.

The NEB will leverage the results of the periodic core control audits performed by the Office of the Comptroller General. Below is a summary of the results of the assessment conducted during fiscal year 2018–19.

2. Assessment results during fiscal year 2018–19

For the most part, controls related to payment for goods and services and payment authority were functioning well and form an adequate basis for the department's system of internal control.

3. Assessment plan

The NEB will continue to monitor the performance of its system of internal control, with a focus on the core controls related to financial transactions.