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**National Defence – Assistant Deputy Minister (Finance)
FAM Chapter 1021-1 – Liabilities including Payables at Year-End (PAYE)**

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Revision History

Revision No.	Date	Section(s)	Description	Approval
1	25 November 2024	5.30; 6.13; and 6.14.	5:30 – Clarified the accountability of L1s to have sufficient funding for payables and PAYEs. 6.13 and 6.14 – Updated the roles and responsibilities	Director General Strategic Financial Governance (DGSFG)

1. Effective Date

- 1.1 This policy is effective on **25 November 2024**.
- 1.2 This policy replaces the previous Department of National Defence (DND)/Canadian Armed Forces (CAF) financial management (FM) policy instruments related to liabilities and payables at year-end (PAYE).
 - Financial Administration Manual (FAM) Chapter 1021-1, Liabilities, dated 9 June 2006; and
 - FAM Chapter 48, Payables at Year-End, dated 1 April 1995.
- 1.3 The policy was approved by the Assistant Deputy Minister, Finance (ADM(Fin)) on **16 December 2020**.

2. Application

- 2.1 This policy applies to all categories of liabilities (including PAYEs) in the DND/CAF. Additional policy direction is provided in FAM Chapter 1021-3, Environmental Liabilities, and that FAM chapter takes precedence over FAM Chapter 1021-1 on specific environmental liability topics, but FAM Chapter 1021-1 must also be consulted as it still applies and provides in-depth policy coverage on liability topics not exclusive to environmental liabilities. Contingent liabilities are not subject to this policy and are covered under FAM Chapter 1021-4, Contingent Liabilities.

3. Context

- 3.1 The department must manage its liabilities including PAYEs in accordance with Treasury Board (TB) statutes, policies and directives. Due to the nature and complexity of its programs, the department may be faced with unique situations that may not be addressed or fully articulated under the TB Directive on Accounting Standards nor the Government of Canada Accounting Handbook (GC) 5100 Payables at Year-End.
- 3.2 This policy must be applied in conjunction with and after reading the following:
 - TB Directive on Accounting Standards: GC 5100 Payables at Year-End.
- 3.3 All financial documentation supporting the transactions must be retained for six years from the end of the fiscal year (FY) in which the transaction takes place. When an Accounts Receivable is created, all documentation is retained until the account is cleared. When a criminal disciplinary or recovery action is taken, all documentation must be retained and protected for six fiscal years after the process is completed.
- 3.4 See Appendix A for the definitions applicable to this policy and a list of acronyms used.

4. Objectives and Expected Results

4.1 The objectives of this policy are to:

- Identify the DND/CAF key stakeholders involved with the FM of liabilities including PAYEs and outline their roles and responsibilities;
- State and explain the DND/CAF FM policies for liabilities that are generally not addressed in TB policies, directives, standards and guidelines; and
- State and explain the DND/CAF FM policies particular to PAYE liabilities.

4.2 The expected results of implementing this policy are:

- Effective governance, oversight, and internal controls over DND/CAF liabilities including PAYEs;
- Key DND/CAF stakeholders are aware of and understand their roles and responsibilities with respect to liabilities including PAYEs; and
- Liabilities including PAYEs are managed, recorded and reported in a manner that is compliant with this policy.

5. Requirements

A. Liabilities

Definition of Liabilities

5.1 Liabilities are present obligations of the DND/CAF to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits (PS 1000.44).

5.2 The obligations may be to organizations outside the Government of Canada, individuals, as well as to employees/CAF members and Other Government Departments (OGD). They are a result of contracts, agreements and legislation in force on or before the financial statement date (PS 3200.04).

5.3 Liabilities have three essential characteristics:

- They embody a duty or responsibility to others. The department has little or no discretion to avoid settlement of the obligation;
- The duty or responsibility to others requires a future transfer or use of assets, provision of goods or services, or other form of economic settlement. The settlement will take place on a date that is specified or determinable, on occurrence of a specified event, or on demand; and
- The transactions or events obligating the department have already occurred.

Obligations are not liabilities unless they meet the three characteristics above (PS 3200.05, 3200.06).

Recognition of Liabilities

- 5.4 [Expenses](#) are often recognized in the financial statements by recording a liability in the departmental [Financial Management System](#) (FMS), generally as an [accounts payable](#) and/or [accrued liability](#). The liability is maintained until the obligation underlying the liability is partly or wholly satisfied.
- 5.5 For the DND/CAF, liabilities generally include items such as:
- Accounts payable and accrued liabilities. These include regular trade and OGD payables, contractor holdbacks, accrued salaries and wages, PAYE transactions, etc.;
 - CAF pension and insurance accounts;
 - Employee future benefits (including severance benefits for CAF members and DND employees);
 - Environmental liabilities;
 - Vacation pay and compensatory leave;
 - Lease obligations for tangible capital assets;
 - Deferred revenue; and
 - Deposits (including contractor security deposits) and trust accounts.
- 5.6 A liability must be recognized and recorded in the departmental FMS when all of the following conditions are met:
- The obligation meets the definition of a liability in paragraph 5.1;
 - There is an appropriate basis of measurement; and
 - A reasonable estimate can be made of the amount involved.
- Note: The Treasury Board Secretariat is responsible for calculating and recording specific liabilities in the financial statements of the Government of Canada pertaining to DND/CAF operations. These liabilities generally relate to the Treasury Board's role as the employer of the federal public service or to liabilities affecting multiple departments.
- 5.7 There may be situations where an obligation may meet the definition of a liability; however, it cannot be recognized because a reasonable estimate of the amount involved cannot be made. In such situations, the nature of these liabilities should be disclosed in the notes to the departmental financial statements together with the reasons why a reasonable estimate could not be made. Disclosing information on these liabilities allows users to understand the potential effect on the financial statements when the liability becomes estimable.

FAA Requirements for Liabilities

- 5.8 Liability transactions that result in a charge against an appropriation must be certified pursuant to FAA Section 34 and FAA Section 33.
- 5.9 Responsibility Centre (RC) Managers are responsible and accountable for the verification of accounts and for the certification of accounts pursuant to FAA Section 34. Readers should refer to FAM Chapter 1016-3, Account Verification – FAA Section

34, and FAM Chapter 1016-4, Manage Payments – FAA Section 33, for additional information. In the context of payroll administration, readers should refer to FAM Chapter 1023-1, Financial Administration of Civilian Pay, and FAM Chapter 1023-2, Financial Administration of Military Pay.

Timing of Recognition

- 5.10 All liabilities must be recorded in a timely manner in keeping with [accrual accounting](#) principles to ensure that financial statements and reports are accurate and complete. Therefore, when the conditions in paragraph 5.6 are met, a liability must be recorded in the departmental FMS in accordance with the principles established in this policy.

Recording of Liabilities

- 5.11 The consolidated Government of Canada and departmental financial statements must be prepared on an [accrual basis](#), as required by the TB Directive on Accounting Standards. This requires that expenses are recorded when they are incurred rather than when they are paid.
- 5.12 When a liability is incurred, accrual accounting principles require the liability be recorded in the period in which the work was performed, the goods received, the services rendered, or the liability was otherwise incurred.
- 5.13 Transactions occurring near the end of a period and at the beginning of the next must be closely monitored to ensure the liability is recognized in the appropriate accounting period.
- 5.14 There are instances where ownership of goods must be determined in order to establish whether they were received by period end. Normally ownership will have passed to DND when physical control, title and substantial risk of ownership have passed to the department.
- 5.15 Similarly revenue must be recognized in the accounting period(s) it is earned (i.e. in the period when the transactions or economic events leading to the revenue took place, such as when the goods or services are provided by the DND/CAF) rather than when the payment is received. If the revenue is received before the goods or services are provided, then the unearned revenue must be deferred, and recorded as a liability, under Deferred revenue. Only after the DND/CAF has completed the work under the arrangement with the customer can the payment be recognized as revenue in the period(s) it is earned.
- 5.16 Accrual entries required at the end of an accounting period for salary, wages and overtime and payroll processing are the responsibility of the DND/CAF. Readers should refer to the Salary Management and Forecasting Guide for further information on that topic.

Specific Thresholds for Monthly Accruals (excluding at year-end)

- 5.17 Accrued payables for which an invoice or other payment request has not yet been received shall be recorded in the departmental FMS at the end of each month for those above the established DND threshold of \$50,000. This threshold does not

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apply to the monthly accruals of salary, wages and related payroll deductions which are centrally managed.

- 5.18 Deferred revenue due to, or amounts received from, outside clients shall also be recorded in the departmental FMS for amounts above the established DND threshold of \$50,000 throughout the year.
- 5.19 Monthly accrual entries are not required for transactions with OGDs.

Accrual of Payables at Year-end

- 5.20 At year-end, the accrual of payables is generally done through the PAYE process. The Standard Operating Procedure (SOP) – Payables-at-Year-End and the DND Finance Year End instructions provide detailed procedural guidelines, document/transaction types and closing dates in that regard. These documents should be read in conjunction with this policy.

B. PAYE

PAYE Definition and Recognition

- 5.21 PAYEs are used to record debts existing at March 31st that are to be charged against the appropriation at year-end for work performed, goods received, services rendered and other debts due and owed by the department. A PAYE represents a charge against the old year appropriation, despite the payment being issued in the new (or subsequent) FY when the invoice is received or the amount of the debt is due.
- 5.22 RC Managers, local and Level One (L1) Comptrollers must ensure that payables that meet the following criteria as at 31 March are recorded as PAYEs and charged to the appropriation:
- a. In the case of a debt incurred for work, the work has been satisfactorily performed as per the contract, whether or not the amount of the debt is due;
 - b. In the case of a debt incurred for goods, the goods have been satisfactorily received as per the contract and ownership passed to the Department, whether or not the amount of the debt is due;
 - c. In the case of a debt incurred for services, the services have been satisfactorily rendered as per the contract, whether or not the amount of the debt is due;
 - d. In the case of amounts payable between departments (i.e. interdepartmental settlements), it meets the criteria of a, b or c above as if it was a debt;
 - e. In the case of a debt resulting from a transfer payment agreement, the amount is due and the Department's obligation to make the transfer payment and/or the entitlement of the recipient to receive the transfer payment has been established;
 - f. In all other cases, the amount of the debt is due and owed according to a contractual agreement or other legally binding agreement or memorandum of understanding; and

g. In all cases, the amount of the debt should be substantiated (i.e. auditable) and valued (GC 5100.7 Payables at Year-End).

Note: Supporting documentation for all recorded PAYE transactions must be kept on file as part of the [audit trail](#).

- 5.23 [Appendix B](#) provides additional direction on the recording of PAYEs for specific items such as work-in-process, advanced payments and holdbacks. Note that direction and the information in this section supplement the TB Directive on Accounting Standards: GC 5100 Payable at Year-End and must be followed. Further information may be found in the SOP – Payables-at-Year-End and the DND Finance Year End instructions.

PAYE Materiality Limit

- 5.24 In accordance with GC 5100.20.2 Payables at Year-End, the DND/CAF has established a materiality limit of \$1,000 for PAYEs. This means a PAYE must be recorded in the departmental FMS if the amount of the debt is \$1,000 or more. This threshold does not apply to automated MM PAYEs processed within the MM module of DRMIS or to OGD PAYEs for which there is no materiality limit.

PAYE FAA Requirements

- 5.25 As PAYEs represent a charge against an appropriation, they must undergo account verification and be certified pursuant to FAA Section 34 and FAA Section 33. Readers should refer to FAM Chapter 1016-3, Account Verification – FAA Section 34, and FAM Chapter 1016-4, Manage Payments – FAA Section 33, as appropriate. For procedural guidance, readers should refer to the SOP – Payables-at-Year-End.
- 5.26 FAA Section 34 certification is performed to establish the PAYE liability and, in the absence of an invoice, steps 1-3, 6 and 8-11 of the account verification process described in FAM Chapter 1016-3, Account Verification, must at minimum be completed.
- 5.27 Once an invoice is received, the account verification process as described in FAM Chapter 1016-3, Account Verification, must be completed and the invoice certified pursuant to FAA Section 34.
- 5.28 Payment authority pursuant to FAA Section 33 must be exercised on both the transaction that establishes the PAYE and on the payment transaction in the new FY when the invoice is received and payment is made to the supplier. Payment officers must be vigilant in their review to ensure only valid PAYEs are established and charged to current year appropriations. Furthermore, all PAYEs that meet the criteria of “High Risk” must undergo pre-payment verification in accordance with departmental policies and procedures in that regard.
- 5.29 For the purposes of pre-payment verification, a “High Risk” PAYE transaction is defined as a high value dollar account that could have a significant impact on the accuracy of DND’s reporting on liabilities in the financial statements. When the invoice is received in the new FY, the risk level of the associated payment transaction

will then be determined based on the factors listed under paragraph 19 of FAM Chapter 1016-4, Manage payments – FAA Section 33.

- 5.30 Pursuant to FAA Section 37.1, all liabilities meeting the criteria for PAYE in paragraph 5.22 must be charged to the Department's appropriations even if it results in overspending the current FY appropriation. However, within DND, L1s are fully accountable for ensuring that sufficient funding is available to cover all payables including PAYEs, and they must operate strictly within their allocated budgets. L1s must remain fiscally responsible and ensure they have proper and detailed overview of their sub-organizations' sec 32 approvals and spending. In accordance with the FAA, if overspending does occur the amount must be reported to the TB Secretary and the Office of the Comptroller General (OCG) as soon as it becomes known.

Duplicate Payments

- 5.31 Responsibility Centre (RC) Managers shall ensure a PAYE is not recorded at year-end for any obligation for which another PAYE has already been established or for which a payment has already been made. Should a PAYE be created in error, the transaction must be cancelled.

Monitoring, Carry-Forward and Removal of PAYEs

- 5.32 While a PAYE to OGD or Crown corporations can be reversed based on mutual agreement, a PAYE to entities or individuals outside the Government of Canada must remain in the DND financial accounts until payment is made or the debt ceases to exist. Therefore, a PAYE is to be carried forward from one FY to another until it is paid, unless the legal requirement to pay the debt ceases to exist.
- 5.33 Despite the possibility to carry forward, a PAYE is intended to be a short term accounting process allowing RC Managers to use old year funds to affect payment in the new FY. As such, PAYEs must be monitored on a monthly basis to ensure their continued relevance and that appropriate and timely action is taken in the departmental FMS to close PAYEs as soon as possible in the new FY.
- 5.34 Following the corporate call letter issued by DFA, an annual review of any outstanding PAYE from the previous FY must be conducted to verify its continued validity and determine if action is required to adjust, close or otherwise carry-forward the PAYE.
- 5.35 Decisions made to adjust or carry-forward an outstanding PAYE from previous FY must be justified with supporting documentation kept on file as part of the audit trail. Similarly, decisions made to close a PAYE when a lesser amount or no amount was paid towards the debt must also be justified with supporting documentation kept on file as part of the audit trail.
- 5.36 All PAYE transactions are subject to potential audits and annual reviews. RC Managers, local and L1 Comptrollers are responsible for monitoring and managing their PAYEs during the FY and at FY end. Great care should be taken in documenting their decisions relating to the creation and management of PAYEs as they are accountable in that regard.

PAYE Settlement – Voted Appropriations

- 5.37 When a debt is settled with a smaller amount than the amount of the recorded PAYE, the difference will result in surplus PAYE funds for the department.
- 5.38 Old year invoices for which no PAYE was created or for which the PAYE was underestimated should be recorded and paid for using surplus PAYE funds from a debt that was chargeable to the same appropriation when they are available. This means that the debt's appropriation was for the same FY, and all necessary [TB authorities](#), such as those related to grants, are respected (GC 5100.21.2 Payables at Year-End).
- 5.39 Surplus PAYE funds are managed at the corporate level and Director Budget (DB) approval is required in order to use them for the above mentioned purpose of paying old year invoices. DB approval is to be requested through the L1 Comptroller.
- 5.40 Further information on the settlement of PAYEs for voted appropriations is available in GC 5100.21.3 and GC 5100.21.4 Payables at Year-End. The settlement of payables for [statutory appropriations](#) is not discussed in this policy. Readers should refer to GC 5100.22 Payables at Year-End for more information on this topic.

Other Government Departments

- 5.41 During the FY, OGD accounts payable and receivable are cleared using Interdepartmental Settlement (IS) transactions. When IS transactions can no longer be processed at year-end closing date, the appropriate amounts are then recorded using OGD PAYE and Receivable at Year-End (RAYE).
- 5.42 An OGD PAYE in one government department must have an offsetting RAYE in the other department, and vice versa. The onus falls on both DND and the OGD to communicate and establish their own accounting entries. As detailed in FAM Chapter 1016-6, Interdepartmental Settlements, activities between departments require close co-operation to ensure that payables in one department's financial system match the other one's receivables. This is especially critical at year-end.
- 5.43 Every effort should be made to process IS transactions during the year in order to minimize the number of OGD PAYEs and RAYEs required at year end.
- 5.44 Procedures for the recording and management of RAYEs are available in the RG and in the DND Finance Year End Instructions.

6. Roles and Responsibilities

The following identifies the roles and responsibilities of various DND organizations and positions related to the financial management of liabilities and PAYEs.

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Deputy Minister

6.1 The Deputy Minister (DM) is responsible for:

- Ensuring a departmental governance framework and a risk based system of internal controls over the management of liabilities are in place to ensure departmental compliance with legislation and this policy;
- Ensuring L1 Advisors and the Assistant Deputy Minister (Finance)/Chief Financial Officer (ADM(Fin)/CFO) are aware of their responsibilities and have the necessary knowledge to carry them out; and
- Ensuring that the ADM(Fin)/CFO advises the OCG on a timely basis where there are difficulties in complying with this policy.

Assistant Deputy Minister (Finance)/Chief Financial Officer

6.2 The Assistant Deputy Minister (Finance) (ADM(Fin))/Chief Financial Officer (CFO) is responsible for:

- Establishing, monitoring and maintaining the departmental governance framework, including policies and procedures related to the recording, reporting and management of liabilities, in a manner that ensures compliance with legislation and this policy;
- Establishing, monitoring and maintaining a risk based system of internal controls over departmental liabilities to ensure compliance with legislation and this policy;
- Providing financial functional direction and guidance across the department and the CAF on matters related to liabilities;
- Informing the DM and the OCG of any critical financial risk to the department and/or if there are difficulties in complying with this policy or other direction from the Comptroller General of Canada; and
- Ensuring that corrective actions are taken to address instances of non-compliance with this policy by a civilian, or in the case of a CAF member, notifying the military chain of command that corrective actions must be taken.

Level 1 Advisors

6.3 Level 1 (L1) Advisors (Assistant Deputy Ministers and Military L1s) are responsible for:

- Ensuring that this policy is properly applied within their organization; and
- Ensuring RC Managers within their organization are aware of their responsibilities and have the necessary knowledge to carry them out.

Assistant Deputy Minister (Human Resources – Civilian)

6.4 The Assistant Deputy Minister (Human Resources – Civilian) (ADM(HR-Civ)) is responsible for:

- Assuming the responsibilities identified in paragraph 6.3 of this policy for L1 Advisors;

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- Assuming the responsibilities outlined in FAM Chapter 1023-1, Financial Administration of Civilian Pay; and
- Ensuring compliance within their organization with the requirements of this FAM chapter for the management and accrual of civilian salary, wages and overtime and payroll processing.

Chief Military Personnel

6.5 The Chief Military Personnel (CMP) is responsible for:

- Assuming the responsibilities identified in paragraph 6.3 of this policy for L1 Advisors;
- Assuming the responsibilities outlined in FAM Chapter 1023-2, Financial Administration of Military Pay; and
- Ensuring compliance with the requirements of this FAM chapter for the management and accrual of military salary, wages and overtime and payroll processing.

Director General Strategic Financial Governance

6.6 The Director General Strategic Financial Governance (DGSFG) is responsible for:

- Ensuring this policy takes into consideration the unique situations and circumstances of the DND/CAF;
- Supporting the implementation of this FAM chapter through adequate policies, procedures and controls;
- Ensuring the DND/CAF financial management business processes, procedures and related systems adequately support the recording, processing, management and reporting of liabilities in accordance with this policy; and
- Bringing to the attention of the ADM(Fin)/CFO any significant compliance issues with this policy that they become aware of and providing recommendations on how to address them.

Director Financial Policy

6.7 The Director Financial Policy (DFP) is responsible for:

- Developing and promulgating departmental financial policies on liabilities including PAYEs and related matters;
- Providing policy interpretation and clarification when appropriate on policy matters related to liabilities including PAYEs; and
- Reviewing procedures related to the management of liabilities including PAYEs to ensure compliance with legislation and this policy.

Director Financial Controls

6.8 The Director Financial Controls (DFC) is responsible for:

- Assessing the effectiveness of key controls related to in-scope business processes and systems and making recommendations based on the results of the assessments;
- Reporting on the status of the assessments and completing the annual summary for inclusion as an Annex to the department's external financial reports; and
- Tracking and reporting on the status of remediation action plans.

Director Financial Systems Integration

6.9 The Director Financial Systems Integration (DFSI) is responsible for:

- Creating and maintaining financial business process documentation on liabilities and PAYEs to support the Business Process Owners;
- Assisting the Business Process Owners with the development and design of business process and remediation assistance through financial business process re-engineering and transformation activities when requested or required;
- Establishing and issuing mandatory procedures in compliance with this policy that standardize how activities related to liabilities and PAYEs are performed across the DND/CAF; and
- Developing and implementing efficient FMS processes that support an integrated, standardized and policy compliant treatment of liabilities including PAYEs.

Director General Financial Operations and Services

6.10 The Director General Financial Operations and Services (DGFOS) is responsible for:

- Supporting the implementation and oversight of the day-to-day application of this policy;
- Ensuring that the DND/CAF financial management business processes and procedures support the recording, processing, management and reporting of liabilities in accordance with this policy;
- Promoting departmental procedures and best practices so that the treatment of liabilities including PAYEs is standardized and policy compliant across the department; and
- Bringing to the attention of the ADM(Fin)/CFO any significant compliance issues with this policy that they become aware of and providing recommendations on how to address them.

Director Financial Accounting

6.11 The Director Financial Accounting (DFA) is responsible for:

- Producing the departmental financial statements, including the Statement of Financial Position, and submissions for the Public Accounts of Canada, in compliance with legislation and this policy;

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- Preparing the monthly and final CFMRS trial balance reflecting the balance of liabilities;
- Ensuring processes and instructions such as the DND Finance Year End Instructions are developed and communicated to ensure a standardized and policy compliant approach to the management of liabilities across the DND/CAF;
- Exercising a challenge function to ensure the department's financial statements are accurate and reasonable;
- Issuing the annual call letter and performing the annual review of outstanding PAYEs from previous FY; and
- Providing corporate support to L1 Comptrollers and CDAO through guidance and advice on liabilities including PAYEs.

Corporate Departmental Accounting Office

- 6.12 The Corporate Departmental Accounting Office (CDAO) is responsible for:
- Providing guidance and mandatory functional direction to RDAOs with regards to the application of this policy and related procedures;
 - Promoting procedures and internal controls to support a standardized application of this policy; and
 - Monitoring and oversight of RDAOs' compliance with this policy and related procedures and controls.

Director Budget

- 6.13 The Director Budget (DB) is responsible for:
- Monitoring PAYEs/accruals at year-end to ensure they are within current funding allocations;
 - Managing the use of surplus PAYE funds at the departmental level by monitoring the funds and by vetting requests from L1 Comptrollers; and
 - Approving requests for use of surplus PAYE funds by L1 Comptrollers.

Level 1 Comptrollers

- 6.14 The Level 1 (L1) Comptrollers are responsible for:
- Ensuring adequate funding is available for PAYEs/accruals at year-end;
 - Ensuring processes and controls are in place to ensure compliance with this policy;
 - Ensuring all staff are provided with direction and guidance regarding the application of this policy and related procedures and instructions;
 - Ensuring all processes and controls related to liabilities and PAYEs are monitored for compliance and working effectively;
 - Ensuring pertinent, accurate and complete information on liabilities and/or PAYEs is available upon request;
 - Assisting RC Managers in ensuring only valid liabilities and PAYEs are recorded in the departmental FMS;

- Ensuring effective maintenance of records for the audit trail, including those that justify estimated amounts and decisions to record, modify, close a liability or PAYE;
- Assisting RC Managers in ensuring recorded liabilities and PAYEs are based on reasonable estimates, when required;
- Ensuring PAYEs are monitored on an ongoing basis and consumed as soon as feasible;
- Obtaining DB approval to use surplus PAYE funds in situations where an old FY invoice requires payment but an insufficient PAYE or no PAYE was created;
- Ensuring OGD PAYE/RAYE and corresponding transactions are properly recorded and communicated to the OGD; and
- Ensuring that individuals in positions with delegated authority have the required training and skills to exercise their authority.

Regional Departmental Accounting Office Comptrollers

6.15 The Regional Departmental Accounting Office (RDAO) Comptrollers are responsible for:

- All responsibilities identified in paragraph 6.14 of this policy for L1 Comptrollers;
- Ensuring this policy is fully implemented within their geographic area of responsibility and monitoring for compliance;
- Managing the accounts payable function, i.e., high risk and low volume invoices, compliance and verification, PAYEs, etc.;
- Ensuring individuals are trained, aware and fully understand the processes related to this policy;
- Providing guidance and assistance to RC Managers in applying this policy;
- Exercising FAA Section 33 payment authority and ensuring that individuals designated to exercise this authority have the required training and skills to do so.

Responsibility Centre Managers

6.16 Responsibility Centre (RC) Managers are responsible for:

- Ensuring liabilities including PAYEs are recognized, managed and recorded in compliance with this policy and related procedures;
- Ensuring all staff involved in the processes for liabilities including PAYEs fully understand this policy and receive adequate training and support;
- Ensuring only valid liabilities and PAYEs are created and seeking guidance on transactions as required from their respective local or L1 Comptroller;
- Ensuring reasonable and accurate estimates are made and documented, and that liabilities of a legal nature are correctly assessed by the CF Legal Advisor;
- Providing their local or L1 Comptroller with all pertinent information including information on receipts on a timely basis upon request so that the information recorded in the departmental FMS is complete and accurate;
- Ensuring OGD PAYE/RAYE transactions are properly recorded and communicated to the OGD;

- Maintaining an appropriate audit trail in compliance with the requirements of this policy, including documents that justify decisions to estimate, record, modify, clear or remove a liability or PAYE;
- Monitoring and managing their activities and transactions to ensure liabilities and PAYEs are accurately recorded and take appropriate action as soon as possible to modify, clear or remove a transaction;
- Ensuring no duplicate payments occur; and
- Ensuring FAA requirements are applied, in line with departmental policies and procedures, and that the designated individuals have the proper authorities and training to do so.

7. Consequences of Non-Compliance

- 7.1 Under the TB Policy on Financial Management, the DM is responsible for investigating and acting when significant issues regarding policy compliance arise, and ensuring that appropriate remedial action is taken to address such issues within the DND/CAF. The TB Framework for the Management of Compliance provides guidance on the considerations for determining the possible mix of consequences, which include the impact of the non-compliance, whether there has been a history of non-compliance, was there intent and other circumstances.
- 7.2 To support the DM's responsibility under the TB Policy on Financial Management, the ADM(Fin)/CFO or in the case of a member of the CAF, the military chain of command at the ADM(Fin)/CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with this policy. Corrective actions can include a requirement for additional training, changes to procedures or systems, removal or suspension of delegated financial authorities on a temporary or permanent basis, disciplinary action or other measures as appropriate.

8. References

8.1 Legislation

[Financial Administration Act](#)

8.2 Treasury Board and Central Agency FM Policy Instruments

[TB Directive on Accounting Standards](#)

[TB Directive on Accounting Standards: GC 5100 Payables at Year-End](#)

[TB Directive on Payments](#)

[TB Policy on Financial Management](#)

8.3 DND/CAF FM Policies

[FAM Chapter 1016-1, Transfer Payments](#)

[FAM Chapter 1016-3, Account Verification – FAA Section 34](#)

[FAM Chapter 1016-4, Manage Payments – FAA Section 33](#)

[FAM Chapter 1016-6, Interdepartmental Settlements](#)

[FAM Chapter 1016-9, Accountable Advances](#)

[FAM Chapter 1019-7, Accounting for Non-Monetary Exchanges](#)

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[FAM Chapter 1021-3, Environmental Liabilities](#)
[FAM Chapter 1021-4, Contingent Liabilities](#)
[FAM Chapter 1023-1, Financial Management of Civilian Pay](#)
[FAM Chapter 1023-2, Financial Administration of Military Pay](#)

8.4 DND/CAF FM Guides, Forms, Tools and Other References

[DND Finance Year End Instructions](#)
[DRMIS Finance Business Process Procedures](#)
[DRMIS MA&S Year End Instructions](#)
[Government-wide Chart of Accounts](#)
PS Handbook 3200 Liabilities
[Receiver General Manual Chapter on Year-End Timetable and Procedures](#)
Salary Management and Forecasting Guide (in development)
SOP – Payables-at-Year-End
[TB Commonly Sought Authorities](#)

9. Enquiries

- 9.1 Questions on policy interpretation and clarification are to be addressed to the appropriate Comptroller.
- 9.2 If the local Comptroller requires assistance, the question will be escalated through the financial chain of command.
- 9.3 If the L1 Comptroller needs guidance on the matter(s) raised, the L1 Comptroller may contact DFA.
- 9.4 If DFA needs guidance on the matter(s) raised, they may contact DFP.

Appendix A – Definitions and Acronyms

Definitions

The following definitions apply to this policy:

Accounting Date (Date de l'arrêté des comptes) is the date being reported on.

Accounts Payable (Comptes créditeurs) are amounts owed or payable by the Department for goods or services received as of the accounting date.

Accrual Accounting (Comptabilité d'exercice) is a basis of accounting that recognizes the effect of transactions and events on a department's financial statements in the period(s) in which they occur, rather than in the period(s) in which the department uses its appropriation. Revenues are recorded in the books of account when they are earned (i.e. when goods or services are provided), and expenses are recorded when they are incurred (i.e. when the goods or services are received). This recognition occurs regardless of whether there has been a receipt or payment of cash or its equivalent.

Accrued Liabilities (Charges à payer) are liabilities recorded in the books of account resulting from work performed, goods received, services rendered to DND or the liability being otherwise incurred, matched to the relevant accounting period, notwithstanding whether an invoice has been received or processed or cash paid.

Appropriation (Crédit) is any authority of Parliament to pay money out of the Consolidated Revenue Fund.

Audit trail (Piste de vérification) is the information that is needed to trace financial data recorded in the department's general ledger to its source. It contains elements such as paper or electronic documents or system based evidence from the departmental FMS that validate a given transaction. The audit trail provides evidence of the full process of the transaction and its compliance with legal or policy requirements such as:

- The legality and validity of the charge (for example, contract documents);
- The performance of work, receipt of goods or rendering of services;
- The amount due or the manner in which a reasonable estimate was calculated;
- The execution of [spending](#), [financial](#) or other applicable authorities; or
- Any other policy or legal requirement that is relevant to the transaction.

Contingent Liability (Passif éventuel) is an existing condition or situation involving uncertainty as to possible loss to the Department that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the loss or impairment of an asset or the incurrence of a liability.

Expense (Charge) is the cost of resources consumed in and identifiable with the operations of the accounting period.

Expenditure basis of accounting (appropriation accounting/modified cash/partial accrual accounting) (méthode de comptabilité axée sur les dépenses) (comptabilité des crédits, comptabilité de caisse modifiée, comptabilité d'exercice partielle)) is a basis of accounting that aligns with how Parliament authorizes departmental charging against an appropriation. Appropriation accounting differs in its presentation from accrual accounting in that transactions that do not require the use of an appropriation are not reported.

Financial Authorities (Pouvoirs financiers) include certification authority and payment authority. Both of these components are described in the [Delegation of Authorities for Financial Administration for the DND and the CAF](#) document.

Financial Management System (Système de gestion financière) is any combination of business processes (end-to-end, automated and manual), procedures, controls, data and software applications, all of which are categorized as either a departmental financial and materiel management system or program system or central system that produces financial information and related non-financial information. DND's departmental FMS includes DRMIS and would also include any future replacement of DRMIS.

Fiscal Year (Année fiscale) is from April 1st to March 31st

Liabilities (Passifs) are present obligations of the DND/CAF to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

Obligations (obligations) result in a government being bound or committed to a particular course of action. They can arise from:

- Agreements or contracts, including situations where only one party has fulfilled its obligation or where both parties have partially fulfilled their obligations;
- Another government's legislation (for example, environmental legislation of one level of government could place legal obligations on another to prevent, abate or clean up environmental damage);
- A government's own legislation (for example, legislation may require the government to make transfers to organizations and individuals that meet certain criteria set out in that legislation);
- Constructive obligations (that is, those that can be inferred from the facts in a particular situation); and
- Equitable obligations (that is, those that are based on ethical or moral considerations).

Payable at Year-End (Créditeur à la fin de l'exercice) is a transaction pertaining to an old (previous) FY debt that meets the criteria in paragraph 5.22 and which could not be settled until the new year. PAYEs can include such diverse items as: debts incurred for work performed, goods received or services rendered before year-end; a debt owing on, or before, year-end under a contract or similar arrangement; an amount payable on, or before, year-end, resulting from transactions and events with other departments and Crown corporations. PAYEs can also include amounts payable as if they were debts under certain administrative arrangements, including

memoranda of understanding with provincial, national or international entities and organizations; and an amount payable under legislation in force at year-end.

Sacrifice of economic benefits (*sortie future de ressources représentatives d'avantages économiques*) embodies a duty or responsibility to others to a future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand.

Specified Purpose Accounts (Comptes à fins déterminées) are used to record monies received for specified reasons as such monies must be accounted for separately in the Accounts of Canada.

Spending Authority (Pouvoir de dépenser) consists of three elements: expenditure initiation authority, commitment authority, and transaction authority. These authorities are described in the [Delegation of Authorities for Financial Administration for DND and the CAF document](#).

Statutory appropriation (Crédit législatif) is any authority by Parliament to pay money out of the Consolidated Revenue Fund granted on a continuing basis and normally provided for by statutes other than Appropriation Acts.

Transfer Payment (Paiement de transfert) is a monetary payment, or a transfer of goods, services or assets made, on the basis of an appropriation, to a third party, including a Crown corporation, that does not result in the acquisition by the Government of Canada of any goods, services or assets. Transfer payments are categorized as grants, contributions and other transfer payments. Transfer payments do not include investments, loans or loan guarantees.

Acronyms

ADM – Assistant Deputy Minister

ADM (Fin) – Assistant Deputy Minister (Finance)

ADM (HR-Civ) – Assistant Deputy Minister (Human Resources – Civilian)

CAF – Canadian Armed Forces

CDAO – Corporate Departmental Accounting Office

CFO – Chief Financial Officer

CMP – Chief Military Personnel

DB – Director Budget

DFA – Director Financial Accounting

DFC – Director Financial Controls

DFP – Director Financial Policy

DFSI – Director Financial Systems Integration

DGFOS – Director General Financial Operations and Services

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DGSFG – Director General Strategic Financial Governance
DM – Deputy Minister
DND – Department of National Defence
DRMIS – Defence Resource Management Information System
FAA – *Financial Administration Act*
FAM – Financial Administration Manual
FM – Financial Management
FMS – Financial Management System
FY – Fiscal Year
GC – Government of Canada
L1 – Level one
OGD – Other Government Department
PAYE(s) – Payable(s) at Year-End
PS – Public Sector
RAYE(s) – Receivable(s) at Year-End
RC – Responsibility Centre
RDAO – Regional Departmental Accounting Office
SOP – Standard Operating Procedure
SPA – Specified Purpose Account
TB – Treasury Board

Appendix B – Criteria for Establishing PAYEs for Specific Activities

B.1 General

This annex provides further policy guidance on establishing PAYEs for activities not fully articulated in the TB Policy on Accounting Standards: GC 5100 Payable at Year-End.

B.2 Activity

Work-in-Process

- B.2.1 A PAYE is created when a debt for work performed and/or services rendered up to and including March 31 is established and cannot be paid by March 31. The value of work performed and services rendered is determined on the basis of performance up to year-end and on billings or estimates of the debt owing for the related performance (GC 5100.8).

Salaries and Personnel Costs

- B.2.2 Please see GC 5100.10 for direction on recognising PAYEs for salary and wage related obligations, including severance pay and retroactive wage and salary settlements owed. Although PAYEs can be created for certain categories of payables owed to employees at year-end, PAYEs must not be created for obligations contingent on future events such as grievances not yet finalized, reclassifications not yet completed, litigation not yet finalized, etc.

Advance Payments

- B.2.3 Advance payments are made when the requirements of the TB Directive on Payments are observed. Further to GC 5100.11, amounts for advance payments that are due on or before year-end are recorded as PAYEs and are charged to the appropriation if they meet the requirements described in the TB Directive on Payments. This would include that the related contract has an appropriate advance payment clause and all the conditions under that clause have been met.
- B.2.4 The advance payment and consequently the PAYE must adhere to Section 33(3)(a) of the FAA and paragraph 55 of FAM Chapter 1016-3, Account Verification – FAA Section 34.

Grants and Contributions and Other Transfer Payments

- B.2.5 As per GC 5100.14.1, a PAYE for a transfer payment should be recorded and charged against the appropriation when:
- The transfer payment is authorized;
 - All eligibility criteria have been met by the recipient;

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- A funding agreement has been signed by both parties, when an agreement is required by the program; and
- The department's obligation to make the payment and/or the entitlement of the recipient to receive the payment has been established at year-end.

B.2.6 For further direction and guidance on when the department's obligation for grants and contributions is established at year-end, please see GC 5100.14.2.

Holdback

B.2.7 When a debt that meets the criteria at paragraph 5.22 for recording a PAYE also includes a holdback of payment for work performed, service rendered or goods received, a PAYE should be recorded for both the net amount due and the holdback at year-end. However, in accordance with GC 5100.12, a PAYE for a holdback on a transfer payment can only be created when the holdback amount is due and owing at year-end as per the funding agreement. In other words, the conditions in the agreement for the release of the holdback have been fully met.

Specified Purpose Account (SPA)

- B.2.8 All amounts credited to SPAs, whatever the source, are managed as public money and all regulations, policies and directives relating to funds paid out for a specified purpose apply.
- B.2.9 A PAYE can therefore be created if all the appropriate conditions have been met in relation to the use of the funds as prescribed in this policy (e.g. criteria at paragraph 5.22, authorities related to grants, etc.)
- B.2.10 Further to FAA Section 21, disbursements (and therefore creation of a PAYE) are not to be made from an SPA if there are insufficient funds at the time the payment is to be made thereby making the account go into a debit balance, unless authorized by legislation.