

Office of the Privacy Commissioner of Canada

Notes to the Financial Statements

For the year ended March 31, 2004

1. Authority

The Office of the Privacy Commissioner of Canada (the Office) was created under the *Privacy Act*, which came into force on July 1, 1983. The Privacy Commissioner is an independent officer of Parliament appointed by the Governor-in-Council following approval of her nomination by resolution of the Senate and the House of Commons.

The Office is designated as a department for purposes of the *Financial Administration Act*. As such, it is named in Schedule I.1 of that Act and is funded by the Government of Canada through appropriations. The Privacy Commissioner is accountable for, and reports directly to Parliament on the results achieved.

2. Significant Accounting Policies

a) Basis of presentation

The financial statements of the Office of the Privacy Commissioner of Canada have been prepared in accordance with Canadian generally accepted accounting principles.

b) Parliamentary appropriations

The Office of the Privacy Commissioner of Canada is funded by the Government of Canada through parliamentary appropriations. Parliamentary appropriations provided do not parallel financial reporting prepared in accordance with Canadian generally accepted accounting principles since appropriations are based in a large part on cash flow requirements. Consequently, items recognised in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 4 to these financial statements provides information regarding the source and disposition of these appropriations and provides a high-level reconciliation between the two bases of reporting.

c) Due from the Consolidated Revenue Fund (CRF)

The Office operates within the CRF, which is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements made by the Office are paid from the CRF. Due from the Consolidated Revenue Fund represents the amount of cash that the Office is entitled to draw from the Consolidated Revenue Fund, without further appropriations, in order to discharge its liabilities. Net cash provided by government is the difference between all cash receipts and all cash disbursements including transactions involving departments and agencies.

d) Accounts receivable

Accounts receivable are stated at amounts expected to be ultimately realised. A provision is made for receivables where recovery is considered uncertain.

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e) Capital assets

The Office records as capital assets and leasehold improvements all expenses providing multi-year benefits and having an initial cost of \$2,500 or more. Similar items under \$2,500 are expensed in the statement of operations. The capitalisation of software and leasehold improvements has been done on a prospective basis from April 1, 2001.

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

<u>Capital Asset Class</u>	<u>Useful life</u>
Informatics hardware	3 years
Computer software	3 years
Other equipment	10 years
Vehicles	10 years
Leasehold improvements	Term of the lease

f) Salaries and benefits

Salaries and benefits are expensed as the salary or benefits accrue to employees under their respective terms of employment. The employee salaries and benefits liability is calculated based on the respective terms of employment using the employees' salary levels at year end, and the number of days remaining unpaid at the end of the year. The liability for vacation leave is calculated at the salary levels in effect at the end of the year for all unused vacation leave benefits accruing to employees. Employee vacation leave liabilities payable on cessation of employment represent obligations of the Office that are normally funded through future years' appropriations.

g) Employee severance benefits

The Office of the Privacy Commissioner of Canada's liability for employee severance benefits is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the government as a whole. Employee severance benefits on cessation of employment represent obligations of the Office of the Privacy Commissioner of Canada that are normally funded through future years' appropriations.

h) Services provided without charge by other government departments

Services provided without charge by other government departments are recorded as operating expenses by the Office of the Privacy Commissioner of Canada at their estimated cost. A corresponding amount is reported directly in the Statement of Accumulated Deficit.

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i) Contributions to pension plan

The Office of the Privacy Commissioner of Canada's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Office of the Privacy Commissioner of Canada contribute to the cost of the Plan. Contributions by the Office of the Privacy Commissioner of Canada with respect to current service are expensed in the year incurred. The Office of the Privacy Commissioner of Canada is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Plan.

j) Employee future benefits

The Government of Canada sponsors an employee benefit plan (health and dental) in which the Office participates. As a participant, contributions by the Office are recorded at cost and are charged to expenses in the year incurred, and represent the Office's total obligation to the Plan. The Office is not required under present legislation to make contributions with respect to any future unfunded liabilities of the plan.

k) Measurement uncertainty

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Actual results could differ from those estimates. The most significant items where estimates are used are the expected useful life of capital assets and employee severance benefits.

3. Comparative Figures

This is the first year that a set of financial statements including Statement of Financial Position, Statement of Operations, Statement of Accumulated Deficit and Statement of Cash Flow has been prepared in accordance with Canadian generally accepted accounting principles. It is neither practical nor cost effective for the Office of the Privacy Commissioner to show certain comparative amounts because some required information is not readily available and some previous year's amounts would not be able to be substantiated with any degree of precision.

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4. Parliamentary Appropriations

a) Reconciliation of net cost of operations to total Parliamentary appropriations used:

(thousands of dollars)	2004
Net cost of operations	\$ 12,071
Items not requiring the use of appropriations	
Amortization of capital assets	(256)
Services provided without charge	(1,432)
Change in employee benefits	47
Change in employee severance benefits	179
Sub-Total	<u>10,609</u>
Items affecting appropriations	
Capital asset acquisitions	352
Change in prepaid expenses	(34)
Sub-Total	<u>318</u>
Total appropriations used	\$ 10,927 *

b) Reconciliation of Parliamentary appropriations voted to Parliamentary appropriations used:

(thousands of dollars)	2004
Parliamentary appropriations voted	
Operating expenditures	\$ 10,491
Statutory contributions to employee benefit plans	1,238
Proceeds from disposal of capital assets	1
	<u>11,730</u>
Less:	
Lapsed appropriations	(447)
Recoverable amounts of prior years	(355)
Proceeds available for use in subsequent year	(1)
Total Parliamentary appropriations used	\$ 10,927 *

* This amount differs from the unaudited amount (\$11,092,000) included in the 2003-04 *Public Accounts of Canada*. That figure was based on the best information available at the time of the preparation of the Public Accounts.

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5. Accounts Receivable

(thousands of dollars)	2004
Other government departments	\$ 226
External parties	28
Total	\$ 254

6. Capital Assets

(thousands of dollars)	Informatics hardware	Computer software	Software under development	Other equipment	Vehicles	Leasehold improvements	Total
Opening cost	\$607	\$44	\$ -	\$423	\$24	\$ -	\$1,098
Additions	44	149	27	77	-	55	352
Net disposals	(34)	-	-	-	-	-	(34)
Closing cost	617	193	27	500	24	55	1,416
Opening accumulated amortization	236	9	-	146	5	-	396
Net disposals	(34)	-	-	-	-	-	(34)
Current year amortization	180	27	-	40	2	7	256
Closing accumulated amortization	382	36	-	186	7	7	618
Net book value	\$235	\$157	\$27	\$314	\$17	\$48	\$798

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7. Accrued Employee Severance Benefits

The Office of the Privacy Commissioner of Canada provides post-employment benefits to its employees through a severance benefit plan. This benefit plan is not pre-funded and therefore has no assets, resulting in a plan deficit equal to the employee severance benefit liability. Information about the plan is as follows:

(thousands of dollars)	2004
Obligation, beginning of the year	\$ 1,417
Expense for the year	104
Benefits paid during the year	(283)
Obligation, end of the year	\$ 1,238
Current portion	\$ 47
Long term portion	1,191
Obligation, end of the year	\$ 1,238

8. Summary of Expenses by Major Classification

(thousands of dollars)	2004
Salaries and employee benefits	\$ 8,597
Professional and special services	1,319
Accommodation	647
Transportation and communications	382
Repairs and maintenance	271
Amortization	256
Information technology	227
Rentals	186
Utilities, materials and supplies	95
Machinery and equipment	91
Total	\$ 12,071

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9. Commitments

The Office of the Privacy Commissioner of Canada has commitments arising in the normal course of operations for future years. Minimum annual payments under these agreements are as follows:

(thousands of dollars)	Total
2004-2005	\$ 19
2005-2006	14
2006-2007	5
2007-2008	1
2008-2009	-
Total	\$ 39

10. Contingent Liabilities

In the normal course of its operations, the Office of the Privacy Commissioner of Canada may become involved in various legal actions. Some of these legal actions may result in actual liabilities when one or more future events occur. To the extent that the future event is likely to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements. No contingent liabilities are recognized in the financial statements for the year ended March 31, 2004.

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11. Related Party Transactions

The Office is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Office enters into transactions with these entities in the normal course of business. During the year, the Office expensed \$3,172,478 from transactions in the normal course of business with other government departments, agencies and Crown corporations. These expenses include services provided without charge of \$1,432,000 as described in Note 12.

12. Services Provided Without Charge

During the year, the Office of the Privacy Commissioner of Canada received services that were obtained without charge from other government departments, agencies and Crown corporations. These services include:

(thousands of dollars)	2004
Accommodations provided by Public Works and Government Services Canada	\$ 647
Contributions covering the employer's share of employees' insurance premiums paid by Treasury Board Secretariat	538
Payroll services provided by Public Works and Government Services Canada	3
Employee Benefit Plan adjustment absorbed by Treasury Board Secretariat	64
Audit services provided by the Office of the Auditor General	180
Total	\$ 1,432

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13. Pension Benefits

Contributions to the Public Service Superannuation Plan represent the total pension obligations of the Office of the Privacy Commissioner of Canada and are recognized in the accounts on a current basis. The Office of the Privacy Commissioner of Canada's contribution to the Plan was \$927,000 for the year ended March 31, 2004.

14. Accumulated Deficit

Accumulated deficit represents the difference between funding and accrued expenses, and primarily represents transactions incurred by the Office in providing services that will require future funding. Significant components of these future funding requirements are employee severance benefits and vacation pay liabilities. These amounts are expected to be funded by appropriations in future years as they are paid.

15. September 2003 Special Audit Report

As noted in the Office of the Auditor General's special audit report of September 30, 2003, during the period of September 2000 to June 2003 certain transactions of the Office of the Privacy Commissioner of Canada were not in compliance with the requirements for financial management as stipulated in the *Financial Administration Act*. These transactions included improper payments to the former Commissioner, the improper authorization of certain payments and inappropriate cash out of vacation leave.

In response, management has prepared and implemented a corrective action plan designed to prevent future violations of the *Financial Administration Act* and to address the recommendations made by the Office of the Auditor General in the September 2003 report. In addition, the Office has taken steps to recover amounts inappropriately paid out during the period of September 2000 to June 2003.