



Office of the Ethics Commissioner
Bureau du commissaire à l'éthique

THE 2005-2006

ANNUAL REPORT OF THE ETHICS COMMISSIONER

on activities in relation to
MEMBERS OF THE HOUSE OF COMMONS
FOR THE FISCAL YEAR ENDING MARCH 31, 2006



June 2006

Bernard J. Shapiro

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Office of the
Ethics Commissioner



Bureau du
commissaire à l'éthique

June 29, 2006

The Honourable Peter Milliken
Speaker of the House of Commons
The House of Commons
Ottawa, Ontario K1A 0A6

Dear Mr. Speaker,

Pursuant to paragraph 72.13 (1)(a) of the *Parliament of Canada Act*, I am pleased to submit to you the report of the Ethics Commissioner on activities in relation to Members of the House of Commons for the fiscal year ending March 31, 2006.

In this second annual report on the activities of my Office, I have included comments on the major activities during the past year. After devoting a good part of the previous year in creating the new Office as a parliamentary entity, the 2005-06 fiscal year can be characterized as one of consolidation and continuation. It has led to improvement in our approaches to issues and operations to ensure that we are properly accountable to Parliament and to Canadians in sustaining and enhancing the ethics regime applicable to Members of the House of Commons.

Yours sincerely,

A handwritten signature in cursive script, reading 'Bernard Shapiro'.

Bernard Shapiro
Ethics Commissioner

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PREFACE

This Report fulfils the statutory requirement (paragraph 72.13 (1)(a) of the *Parliament of Canada Act*) that, within three months after the end of each fiscal year, the Ethics Commissioner shall submit a report, relating to his activities related to Members of the House of Commons. It is to be forwarded to the Speaker of the House of Commons, who will table the report in the House. This report covers the period from April 1, 2005 to March 31, 2006.

* * *

INTRODUCTION

This is the second annual report of the Ethics Commissioner in relation to the administration of the *Conflict of Interest Code for Members of the House of Commons* (referred to in this report as “Members’ Code”).

The ultimate objective of the Office of the Ethics Commissioner is to sustain and, where possible, enhance public confidence in our system of government at the federal level and in our parliamentary institutions. Canadians expect that our elected representatives will make decisions in the public interest, without any consideration of personal gain. As such, my Office helps to ensure the accountability of Members of the House of Commons.

The Government of Canada’s ethical framework has evolved over the past three decades. It continues to evolve, as indicated by the current government’s proposals contained in Bill C-2, *the Federal Accountability Act*. Thus, while my Office can only directly address those issues that are set out in the *Conflict of Interest and Post-Employment Code for Public Office Holders* and the *Conflict of Interest Code for Members of the House of Commons* for which I am responsible, I am pleased to note that the role and activities of my Office have served as a focal point for the larger public debate on how best to meet the growing public expectations for accountability and higher ethical standards in the federal government.

REVIEW OF THE PAST YEAR – MAJOR ACTIVITIES

A. Operations

Administering the Conflict of Interest Code for Members of the House of Commons

The operational work of our Office can be divided into activities under the Members’ Code for Members who were elected to the 38th Parliament and those elected to the 39th Parliament on January 23, 2006.

38th Parliament

The 38th Parliament began on October 3, 2004, as a consequence of the federal general election that took place on June 28, 2004.

As of April 1, 2005, the beginning of the fiscal year covered by this report, our Office had finalized the compliance arrangements for 85% of the 308 Members of the House of Commons. Our Office had placed that information in the Public Registry that is maintained at our office and is available for public viewing during regular office hours.

As the remaining 15% of Members provided their information to us, we were able to complete 300 compliance arrangements by June 30, 2005. We finalized the last file and placed it in the Public Registry on September 29, 2005 – almost one year after the process for Members of the 38th Parliament began. In the final section of this report, I have provided comments on the fact that Members have no deadline by which they must finalize their arrangements pursuant to the Members' Code.

39th Parliament

On November 28, 2005, the writs were issued for a general election to be held on January 23, 2006. Of the 308 Members of the House of Commons elected that day, 68 were new Members, while 240 were re-elected Members.

Section 20(1) of the Members' Code requires that Members file with the Ethics Commissioner a full confidential Disclosure Statement setting out the private interests of the Member and members of his or her family. They are to file those statements within sixty days after notice of their election being published in the *Canada Gazette*. Those notices were published in the *Canada Gazette* between February 2 and 17, 2006.

Upon the publication of each Member's name in the *Canada Gazette*, our Office initiated the compliance arrangement process under the Members' Code.

Our Office sent a letter to each of the 68 newly-elected Members asking them to complete copies of the new Disclosure Statement. The new Statement combines the disclosure of the private interests of the Member with those of his or her spouse, common-law partner and dependents. It had been developed by our Office in consultation with the Sub-Committee of the Standing Committee on Procedure and House Affairs during the 38th Parliament, and was with the Standing Committee for approval at the time Parliament was dissolved with the election call.

We also sent a letter to each of the returning 240 Members, enclosing a confidential Profile of the information they had previously disclosed in their Disclosure Statements for the 38th Parliament. We asked them to update the information on their private interests as well as those of their family members. This action would also fulfil the obligation under Section 20(1) of the Members' Code for Members to provide an annual update of the information to the Ethics Commissioner.

The 60-day time limit within which Members were to provide our Office with new or updated Disclosure Statements ended on April 18, 2006, after the close of the fiscal year covered by this report. As of March 31, 2006, 153 of the 308 Members had filed their Disclosure Statements or modified confidential Profiles with the Office.

I wish to acknowledge the assistance that each of the party Whips provided to our Office in communicating with the members of their caucuses to remind them of the necessity of filing their Disclosure Statements on time.

Inquiries

It is recognized constitutionally, that the House of Commons has exclusive jurisdiction over the conduct of its Members. On April 29, 2004, the House adopted the *Conflict of Interest Code for Members of the House of Commons* and included it as an Appendix to the Standing Orders of the House.

Pursuant to section 72.05 of the *Parliament of Canada Act*, the Ethics Commissioner performs the duties and functions assigned by the House contained in the Members' Code governing the conduct of its Members when they carry out the duties and functions of their office as Members of that House.

Pursuant to section 27 of the Members' Code, a Member may request that the Ethics Commissioner conduct an inquiry when the Member believes on reasonable grounds that another Member has not complied with his or her obligations under the Members' Code. As well, the House may, by resolution, direct the Ethics Commissioner to conduct an inquiry. Furthermore, the Ethics Commissioner may, on his or her own initiative, and upon giving the Member concerned reasonable notice, conduct an inquiry to determine whether the Member has complied with his or her obligations under the Members' Code.

Six inquiries were initiated during the period covered by this Report. Four arose from requests made by Members of the House, while I initiated two inquiries pursuant to my authority under sub-section 27(4) of the Members' Code.

I suspended one of my self-initiated inquiries, pursuant to paragraph 29(1)(b) of the Members' Code, when the RCMP informed me that the subject of the inquiry was under their investigation. My other self-initiated inquiry was in relation to Minister Emerson and was combined with the Members-requested inquiry into the conduct of Prime Minister Harper, which was related to the 'floor-crossing' of Mr. Emerson. The single report, which dealt with the combined request of three Members and my self-initiated inquiry, was entitled "The Harper-Emerson Inquiry".

The report for the Harper-Emerson inquiry, along with the reports for the Smith inquiry and the Grewal-Dosanjh inquiry, were concurred in by the House of Commons, after the end of this reporting period, on April 28th, 2006.¹ The House had earlier concurred in the Grewal inquiry report on October 4, 2005.² Only one inquiry initiated during 2005-2006 was outstanding as of the end of the 2005-2006 fiscal year.

Precedents and Clarifications as a Result of Inquiries

The inquiries concurred in by the House of Commons have clarified or underlined certain issues and set precedents to guide future inquiries.

¹ House of Commons Journals, No. 12, page 108

² House of Commons Journals, No. 131, page 1103

(a) The Smith Inquiry:

In this case, I concluded that the Members' Code did not have retroactive application in relation to conduct that occurred before it came into force on October 4, 2004, nor did it apply to the conduct of an individual before he or she became a Member of the House.

(b) The Grewal-Dosanjh Inquiry:

In this case, I noted that sub-section 72.08(1) of the *Parliament of Canada Act* clearly indicates that an inquiry cannot be initiated on the conduct of any other category of public office holder, other than a Minister of the Crown, Minister of State, or Parliamentary Secretary.

(c) The Harper-Emerson Inquiry:

In this case, I concluded that during the period of time when a federal general election is ongoing, individuals who were Members of the House prior to dissolution do not have the capacity to make a request for an inquiry pursuant to the Members' Code. I also concluded that the Ethics Commissioner does not have the authority to self-initiate an inquiry during this same time frame.

Summary of Requests made but not pursued

Requests for inquiries that do not lead to the initiation of an inquiry are also valuable in that they often serve to remind Members of the limits and requirements of the Members' Code and the activities that it does and does not address.

Sub-section 27(6) of the Members' Code stipulates that, in dismissing the requests for an inquiry that is deemed to be frivolous or vexatious or not made in good faith, or because of insufficient grounds, the Ethics Commissioner shall report the dismissal to the Speaker. However, the Members' Code does not require that the Ethics Commissioner report to the Speaker when he dismisses requests for an inquiry on the basis that the Ethics Commissioner does not have the mandate or jurisdiction to launch such an inquiry, or that the alleged activity or conduct is not covered by the Members' Code. This approach in reporting could be the subject of a discussion with the Standing Committee on Procedure and House Affairs, should the Committee wish to do so.

There were seven requests that did not lead to inquiries, which can be divided into the following categories. A few cases involved more than one issue and thus were included in more than one category.

Requests by Members of the Public

Two requests were submitted by members of the public, one of whom was a candidate in the general election. I responded to both, noting the *Parliament of Canada Act* only allows members of the Senate or House of Commons to make these requests. Given the nature of the allegations in the request by the individual who was also a candidate in the election, I advised that individual to pursue the matter with the Chief Electoral Officer of Canada.

Requests made by Members of the House of Commons during an Election Campaign

I received two requests for inquiries during the general election campaign from individuals who had been Members of the 38th Parliament. In addition to other comments, in each case, I stated that Members of the House of Commons do not have the capacity to make requests for inquiries between the date when the writs for an election are issued and the date when the names of the elected members appear in the *Canada Gazette*. They may do so, however, once they have been re-elected.

Requests Alleging Wrongdoing by Ministers

Four requests from Members of the House of Commons sought inquiries in relation to actions alleged to have been committed by then-current or past Ministers of the Crown. In addition to other comments set out below, I replied that the Members' Code could not be the basis for these requests, as all the alleged acts of misconduct were related to the executive functions of those Ministers, but not to their duties as a Member of the House of Commons.

Reasonable Grounds

In response to three of the requests for inquiries, my reply included my view that the request had not provided reasonable grounds to believe the alleged breach had occurred.

Requests beyond the Scope of the Members' Code

A Member of Parliament requested that I investigate another Member's alleged use of a constituency office's resources for political purposes. I answered stating that I do not have the jurisdiction over such matters, and that the Board of Internal Economy of the House of Commons is the appropriate forum for raising the issue.

* * *

Communications

Our most important communications achievement during 2005-2006 was the launch of our website in September 2005 to coincide with the return of Parliament for its fall session. This took place in cooperation with the House of Commons Information Technology Services. The public's entry page to the Parliament of Canada website now includes a link to our site.

The website structure mirrors our Office's responsibilities as defined in the *Parliament of Canada Act*. It has separate sections on Members of Parliament and Public Office Holders. Each section has the relevant documents (e.g. the two Conflict of Interest Codes, bulletins and charts to understand the Codes) and a Frequently Asked Questions section. As well, our Media and Publications section provides immediate access to our reports upon their public release. We have also improved our Public Registry for Public Office Holders to make it more user-friendly, including through the introduction of easier search tools.

In addition, our Office devoted the necessary resources to deal with the growing amount of written and e-mail correspondence that we receive from Canadians. Although some of these messages deal with subjects related to our inquiries, most do not. Many Canadians believe my role to be that of an ombudsman who can investigate and address grievances related to the actions and decisions of all levels of government and by elected officials and public servants alike. Clearly, this represents an ongoing challenge and a reminder of the importance that Canadians place on accountability by all their governments.

Parliamentary Relations

Our Office deals with two Standing Committees of the House of Commons. The Standing Committee on Procedure and House Affairs provides broad oversight on our activities related to the Members' Code. The Standing Committee on Access to Information, Privacy and Ethics fulfils a similar role with respect to our activities related to the *Conflict of Interest and Post-Employment Code for Public Office Holders*, as well as general administrative issues such as budget and human resources.

The Standing Committee on Procedure and House Affairs

In 2005, our Office produced, in consultation with the Sub-committee on the Disclosure Statement of the Standing Committee on Procedure and House Affairs, a new disclosure statement pursuant to sections 20 and 21 of the Members' Code. Although it had not received the final approval of the Standing Committee due to the dissolution of the 38th Parliament, we used this interim form for the new Members of the 39th Parliament.

In the fall of 2005, I appeared several times before the Committee to discuss inquiries conducted by my Office, pursuant to section 27 of the Members' Code. In November 2005, during the 38th Parliament, I submitted a proposed set of administrative rules in support of the Members' Code, for the Committee's consideration, drawing on my discussions with the Committee and our

experience to date. With the dissolution of Parliament, the Committee could not review those rules. At the commencement of the 39th Parliament, those proposed rules and a proposed detailed process in support of inquiries pursuant to section 27 of the Members' Code were submitted for the Committee's consideration and I await their review.

The Standing Committee on Access to Information, Privacy and Ethics

In the spring and fall of 2005, I appeared on several occasions before the Standing Committee on Access to Information, Privacy and Ethics. Of relevance to this report, agenda items included the proposed Estimates for my Office for 2005-2006 and my *Issues and Challenges 2005* paper. Activities of that Committee in relation to the *Conflict of Interest and Post-Employment Code for Public Office Holders* are described separately in the report on that Code.

B. Enhancing the Support Infrastructure: Internal Activities

Our Expenditures

In 2005-2006, the Office used the entire \$4.675 million in approved parliamentary appropriations (see Appendix I), of which, 64.5% funded salaries and the rest funded operational costs. This is an increase of \$1.6 million from 2004-2005, largely due to increased costs for employee salary and benefits (\$1.1 million) and for administrative arrangements with the House of Commons and the Library of Parliament (\$500,000).

Our Office's expenditures were largely allocated to operations (72%) where close to \$220,000 was for investigations and over \$1.3 million for compliance measures. Policy (at 13%) and Communications and Parliamentary Relations (at 15%) represented smaller proportions of expenditures. The Office charges all salaries, professional services, travel and other costs associated with any project or operational activity directly to the specific business activity. We treat corporate services costs as overhead and redistribute them to the appropriate business activities.

Our Office began to post financial transactions on our website last summer. This practice has the objective of ensuring transparency and accountability in the management of public funds. The information is updated monthly.

* * *

Our Staff

The Office employed 34 full-time equivalents (FTEs) in 2005-2006, just under the amount of 35 FTEs envisioned in our approved budget. This was an increase of 4 FTEs from 2004-2005. The workforce is diversified and representative of employment equity measures. The organizational chart for our Office is attached as Appendix II.

The Office continues to work toward the development and implementation of internal human resources policies and practices to improve the effectiveness and efficiency of the Office and the quality of the workplace. As part of this, a new employer-employee committee was established to make recommendations to the Ethics Commissioner on policies, practices and procedures to inform and guide employees and managers in human resources management. One of the results of this initiative was the promulgation of a new Training and Professional Development policy for the Office.

The Office also introduced a “360 degree assessment tool” that provides an opportunity for our executives to obtain confidential feedback on their individual effectiveness as a leader on a biennial basis. This initiative also supports our leadership development efforts, performance management and succession planning. Three of the six executives in the Office participated in the exercise during the past year. The remaining three executives will be subject to an assessment in the coming year.

Our Office is working with the Senate, House of Commons and Library of Parliament to provide opportunities and services to employees of the Office in the areas such as training, professional development, occupational health, safety and environment.

Our Operational Review

In 2005-2006, the Office began the development of an internal audit function with the objective of strengthening its good governance practices on accountability, risk management and resource stewardship.

The Office, with the assistance of the Centre for Public Management, initiated a three-month operational review in the fall of 2005 to assess the operating practices that we were using to support the administration of the conflict of interest codes for Members of the House of Commons and public office holders. The operational review assessed those practices in terms of their efficiency, appropriateness in relation to the Office’s mandate, consistency of application, and quality management approaches. It was also intended to identify opportunities for improvement and to recommend steps that could be taken over the short- and medium-terms within current resources.

The consultants undertook several activities, including an extensive literature review, an internal documentation review, interviews with management and staff, and a comparative study of ethics regimes in the United Kingdom, Australia, British Columbia, Ontario and Alberta.

The general assessment of the review confirmed that, “the OEC generally met our expectations in terms of operating practices”, but that there are “several opportunities for improvement.” In response, the management team of the Office identified six areas for action. A Transition Task Force consisting of management and employee representatives was created to provide leadership and to ensure prompt action on the consultants’ recommendations.

During 2006-2007, project teams from the Office will work on five specific areas: structural/organizational issues, in particular the merger of the Executive Affairs and the Legislative Affairs Branches; information technology tools such as digitalization of records; delegation of authority to “flatten” the organizational structure; file assignment processes with an advisor dedicated to a client’s file throughout that person’s tenure; and procedures for constant follow-up with constituents to facilitate compliance.

Our Technologies and Information Management

Throughout 2005-2006 fiscal year, the Office made important advancements in managing information assets, recognizing that good record-keeping is essential to good, accountable governance. Following the transition of the Office from being part of the public service to a parliamentary entity, a number of changes occurred in the information management area, such as systems upgrade requiring information transfers, process and document modifications, and the training and development of new staff in this area. In order to ensure that the Office’s information holdings (paper and electronic) were harmonized, the Office undertook a file review process. This consisted of ensuring that the files contained all relevant and up-to-date information, while verifying that the electronic database was consistent with the paper information.

As a result of the Operational Review described above, the Office will develop and implement in 2006-2007 fiscal year, with the assistance of the House of Commons, a new integrated case/client management and reporting system which will help provide more efficient and consistent services to our constituents.

* * *

Our Threat and Risk Assessment and Other Security Measures

An important contribution to our plans for our information technologies and information management practices took place in the fall of 2005 through a threat and risk assessment (TRA). Our Office launched this initiative in conjunction with the House of Commons Information Services to identify and assess the vulnerabilities, threats and residual risks to our data and information. The TRA evaluated the physical environment where we keep paper information as well as the House of Commons Parliamentary Precinct Network where we process and store electronic data.

The assessment found that *“the Office of the Ethics Commissioner’s (OEC) physical environment is sufficiently structured to adequately protect the OEC’s paper holdings.”* Moreover, from an information technology perspective, the assessment found that *“the House of Commons has implemented some strong security practices ... these practices should protect the OEC electronic assets from the most significant threat.”*

The final report identified recommendations in six areas which our Office and the House of Commons are addressing or intend to address. They were:

- safeguarding of highly sensitive information
- electronic vulnerability assessment on the protocols and external access points used to gain access to our network
- data separation (access to OEC’s shared drive)
- personnel required to adequately administer OEC’s systems
- backup of paper files electronically
- OEC desktop management and remote access by the House of Commons IT administrators.

These will complement actions we have already taken such as secure entry and restricted access into our facilities, a mandatory practice that visitors must be greeted and escorted and full-time camera surveillance of our premises.

* * *

CHALLENGES AHEAD

During 2005-2006, the Office of the Ethics Commissioner made the transition from its former status within the Government of Canada to that of a new Parliamentary entity. Our Office continued to administer the *Conflict of Interest Code for Members of the House of Commons*. At the same time, we undertook several initiatives aimed at improving our internal operations and achieving better results from our financial, physical and human resources.

Our experiences during 2005-2006 and new developments have led me to identify three challenges for 2006-2007 that merit attention.

A. Impact of Bill C-2

On April 11, 2006, the President of the Treasury Board tabled Bill C-2, the *Federal Accountability Act*. It proposes a major structural change, the replacement of the currently distinct roles of the Ethics Commissioner and Senate Ethics Officer with a new Conflict of Interest and Ethics Commissioner. It also would legislate a *Conflict of Interest Act*, covering much of what is now included in the *Conflict of Interest and Post-Employment Code for Public Office Holders*.

The expanded requirements of Bill C-2 means that the Office will need to acquire additional human resources, particularly in areas such as the legal services for interpretation and compliance with a legislated regime, and for the conduct of inquiries. A regime will also have to be developed and administered to implement and apply the new administrative penalties process.

There will be many implications for the Office's information technology and information management systems to support the reporting and monitoring requirements of the new systems as well as to track the penalties. There will be a need for additional resources, accommodation and physical security to deal with an expanded clientele.

B. Improvements under the Current Members' Code

There is one item under the current Members' Code that I would like to draw to the attention of the House of Commons for action. This is the issue of setting fixed time frames within which Members must finalize their Disclosure Statements.

As noted earlier in this Report, it took approximately twelve months for the final Member's Disclosure Summary to be finalized and placed in the Public Registry of Disclosure Statements for Members of the House of Commons. Given that there is no fixed date within which Members are to finalize their arrangements pursuant to the Members' Code, this causes delays and the Office has no tools available to bring about timely compliance. I recommend that the Standing Committee on Procedure and House Affairs consider amending the Members' Code to include fixed time frames for the finalization of this process.

C. Continued Operational Improvements

Regardless of whether and when Bill C-2 becomes law, the Office has identified some areas for operational improvement that will respond to issues and needs in current operations.

For example, experience with the current use of both paper and electronic records points to the value of developing an integrated and efficient information management system – probably including a streamlined correspondence filing and tracking system. The experience of identifying and acting on human resources issues through the collaboration of managers and staff points to the need to create a human resource strategy that will enable the Office to recruit, retain and develop staff and foster a continuous learning environment.

* * *

As mentioned above, I released a paper, *Issues and Challenges 2005*, in October 2005 to address a number of conceptual and procedural challenges that had arisen during the first year of operations of our Office. I mentioned in that paper about my intention to issue such documents on an annual basis. However, in light of the comprehensive changes proposed for the federal ethics regime contained in Bill C-2, the *Federal Accountability Act*, and the ongoing debate on these proposals as part of the legislative process, I do not believe another paper from our Office would be beneficial at this time.

The Office continued to make good progress during the last fiscal year toward achieving our objective of sustaining and enhancing the ethics regime in the federal government. Much remains to be done, both in terms and policy and operational issues. The implementation of the proposed Bill C-2, the *Federal Accountability Act*, will no doubt pose additional challenges to the Office. I am confident that the dedicated and experienced staff of the Office will be ready for the task.

* * *

APPENDIX I

OFFICE OF THE ETHICS COMMISSIONER

Statement of Operations (Unaudited)**For the year ended March 31**

(in dollars)

	2006	2005 <i>(10.5 months)</i> <i>Restated (Note 8)</i>
Salaries and employee benefits	3,314,690	2,148,361
Professional and special services	1,310,093	747,332
Accommodation	318,965	186,063
Amortization	234,767	18,443
Communications, travel and relocation	100,457	105,914
Material and supplies	35,929	29,432
Equipment rentals	31,798	17,461
Repairs and maintenance	22,270	15,202
Information	20,915	85,476
Total Expenses	5,389,884	3,353,684
Net cost of operations	(5,389,884)	(3,353,684)

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

APPENDIX I

OFFICE OF THE ETHICS COMMISSIONER

Statement of Financial Position (Unaudited)

as at March 31

(in dollars)

	2006	2005 <i>Restated (Note 8)</i>
Assets		
Financial assets		
Accounts receivable and advances (Note 4)	173,069	4,069
Total financial assets	173,069	4,069
Non-financial assets		
Tangible capital assets (Note 5)	776,600	901,888
Total	949,669	905,957
Liabilities		
Accounts payable and accrued liabilities	168,747	1,038,832
Vacation pay and compensatory leave	100,634	66,984
Employee severance benefits (Note 6)	547,335	324,518
Total	816,716	1,430,334
Equity of Canada	132,953	(524,377)
TOTAL	949,669	905,957

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

APPENDIX I

OFFICE OF THE ETHICS COMMISSIONER

Statement of Equity of Canada (Unaudited)

as at March 31

(in dollars)

	2006	2005 <i>(10.5 months)</i> <i>Restated (Note 8)</i>
Equity of Canada, beginning of year	(524,377)	-
Net cost of operations	(5,389,884)	(3,353,684)
Employee severance benefit liability assumed on start up (Note 6)	-	(328,918)
Current year appropriations used (Note 3)	4,539,873	3,875,175
Change in net position in the Consolidated Revenue Fund (Note 3)	1,016,308	(1,030,061)
Services received without charge from other government departments (Note 7)	491,033	313,111
Equity of Canada, end of year	132,953	(524,377)

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

APPENDIX I

OFFICE OF THE ETHICS COMMISSIONER

Statement of Cash Flow (Unaudited)**For the year ended March 31**

(in dollars)

	2006	2005 <i>(10.5 months)</i> <i>Restated (Note 8)</i>
Operating activities		
<i>Net cost of operations</i>	5,389,884	3,353,684
Non-cash items:		
Amortization of tangible capital assets	(234,767)	(18,443)
Services provided without charge from other government departments (Note 7)	(491,033)	(313,111)
	4,664,084	3,022,130
Increase in accounts receivable and advances	169,000	4,069
Decrease (increase) in liabilities	613,618	(1,430,334)
Employee severance benefit liability assumed on start up (Note 6)	-	328,918
Cash used by operating activities	5,446,702	1,924,783

Capital investment activities

Acquisitions of tangible capital assets	109,479	920,331
Cash used by capital investment activities	109,479	920,331

Financing Activities

Net cash provided by Government of Canada	5,556,181	2,845,114
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The accompanying notes form an integral part of these financial statements.

APPENDIX I

Notes to the Financial Statements (Unaudited)

1. Authority and Objectives

These statements provide the financial information related to all the operations controlled by the Office of the Ethics Commissioner.

The Office of the Ethics Commissioner was created by an *Act to amend the Parliament of Canada Act and other Acts in consequence*. The Office began its operations on May 17, 2004. The objective of the Office is to enhance public confidence and trust in the integrity of Members of the House of Commons and Public Office Holders as well as the respect and confidence that society places in the House of Commons as an institution.

The Office of the Ethics Commissioner's business is defined through three activities: communications, operations and policy development.

For purposes of financial statements, all activities mentioned above are included in the activities of the Office of the Ethics Commissioner.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

(a) Parliamentary appropriations – The Office of the Ethics Commissioner is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the Office do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

(b) Net Cash Provided by Government – The Office of the Ethics Commissioner operates within the Consolidated Revenue Fund (CRF) which is administered by the Receiver General for Canada. All cash received by the Office is deposited to the CRF and all cash disbursements made by the Office are paid from the CRF. Net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

(c) Change in net position in the Consolidated Revenue Fund is the difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-responsible revenue recorded by the Office. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

(d) Expenses – Expenses are recorded on the accrual basis:

- i. Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.

APPENDIX I

2. Summary of Significant Accounting Policies (continued)

ii. Services provided without charge by other government departments for accommodation and the employer's contribution to the health and dental insurance plans are recorded as operating expenses at their estimated cost.

(e) Employee future benefits

i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. The Office's contributions to the Plan are charged to expenses in the year incurred and represent the total obligation of the Office to the Plan. Current legislation does not require the Office to make contributions for any actuarial deficiencies of the Plan.

ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(f) Accounts receivable and advances are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

(g) Foreign currency transactions – Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect on March 31.

(h) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$500 or more are recorded at their acquisition cost.

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

Asset Class	Amortization Period
Machinery and equipment	10 years
Computer equipment	3 years
Computer software	3 years
Leasehold improvements	life of lease

(i) Measurement uncertainty – The preparation of these financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could 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.

APPENDIX I

3. Parliamentary Appropriations

The Office of the Ethics Commissioner receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Office has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year appropriations used:	2006	2005
	(in dollars)	
Net cost of operations	5,389,884	3,353,684
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Amortization of tangible capital assets	(234,767)	(18,443)
Services provided without charge	(491,033)	(313,111)
Vacation pay and compensatory leave	(33,650)	(66,984)
Employee severance benefits	(222,817)	4,400
Justice Canada fees	-	(4,702)
Adjustment to prior year payables	22,777	-
Adjustments for items not affecting net cost of operations but affecting appropriations		
Add (Less): Acquisitions of tangible capital assets	109,479	920,331
Current year appropriations used	4,539,873	3,875,175
(b) Appropriations provided and used		
	Appropriations Provided	
	2006	2005
	(in dollars)	
Vote 15 – Operating expenditures	4,089,000	3,718,700
Statutory amounts	453,048	289,722
Less:		
Lapsed appropriations: Operating	(2,175)	(133,247)
Total appropriations used	4,539,873	3,875,175

APPENDIX I

3. Parliamentary Appropriations (continued)

(c) Reconciliation of net cash provided by Government to current year appropriations used

	<u>2006</u>	<u>2005</u>
	(in dollars)	
Net cash provided by Government	5,556,181	2,845,114
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	(169,000)	(4,069)
Variation in accounts payable and accrued liabilities	(613,618)	1,430,334
Employee severance benefit liability assumed on start up (Note 6)	-	(328,918)
Other adjustments	(233,690)	(67,286)
	<u>(1,016,308)</u>	<u>1,030,061</u>
Current year appropriations used	<u><u>4,539,873</u></u>	<u><u>3,875,175</u></u>

4. Accounts Receivable and Advances

The following table presents details of receivables and advances:

	<u>2006</u>	<u>2005</u>
	(in dollars)	
Receivables from other Federal Government departments and agencies	172,569	4,069
Employee advances	500	-
Total	<u><u>173,069</u></u>	<u><u>4,069</u></u>

5. Tangible Capital Assets

(in dollars)

Capital asset class	Cost			Accumulated amortization			2006 Net book value	2005 Net book value
	Opening balance	Acquisitions	Closing Balance	Opening balance	Amortization	Closing Balance		
Machinery and equipment	4,800	8,919	13,719	40	1,109	1,149	12,570	4,760
Other equipment	280,868	32,466	313,334	2,341	29,671	32,012	281,322	278,527
Computer equipment	132,369	12,237	144,606	3,677	45,734	49,411	95,195	128,692
Computer software	107,203	3,825	111,028	2,978	36,188	39,166	71,862	104,225
Leasehold Improvements	395,091	52,032	447,123	9,407	122,065	131,472	315,651	385,684
Total	920,331	109,479	1,029,810	18,443	234,767	253,210	776,600	901,888

Amortization expense for the year ended March 31, 2006 is \$234,767 (2005 - \$18,443).

APPENDIX I

6. Employee Benefits

(a) Pension benefits: The Office of the Ethics Commissioner's employees participate in the Public Service Pension 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 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the Office contribute to the cost of the Plan. The 2005-2006 expense amounts to \$335,255 (\$214,394 in 2004-2005), which represents approximately 2.6 time the contributions by employees.

The Office'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) Severance benefits: The Office of the Ethics Commissioner provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	<u>2006</u>	<u>2005</u>
	(in dollars)	
Accrued benefit obligation, beginning of year	324,518	-
Employee severance benefit liability assumed on start up	-	328,918
Expense for the year	222,817	(4,400)
Benefits paid during the year	-	-
Accrued benefit obligation, end of year	<u>547,335</u>	<u>324,518</u>

7. Related Party Transactions

The Office of the Ethics Commissioner is related as a result 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 and on normal trade terms. Also, during the year, the Office received services which were obtained without charge from other Government departments as presented in part (a).

(a) Services provided without charge

During the year the Office received without charge from other departments, accommodation and the employer's contribution to the health and dental insurance plans. These services without charge have been recognized in the Office's Statement of Operations as follows:

	<u>2006</u>	<u>2005</u>
	(in dollars)	
Accommodation	318,965	186,063
Employer's contribution to health and dental insurance plans	172,068	127,048
Total	<u>491,033</u>	<u>313,111</u>

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include translation services, payroll processing and cheque issuance services provided by Public Works and Government Services Canada, are not included as an expense in the Office's Statement of Operations.

APPENDIX I

7. Related Party Transactions (continued)

(b) Payables and receivables outstanding at year-end with related parties:

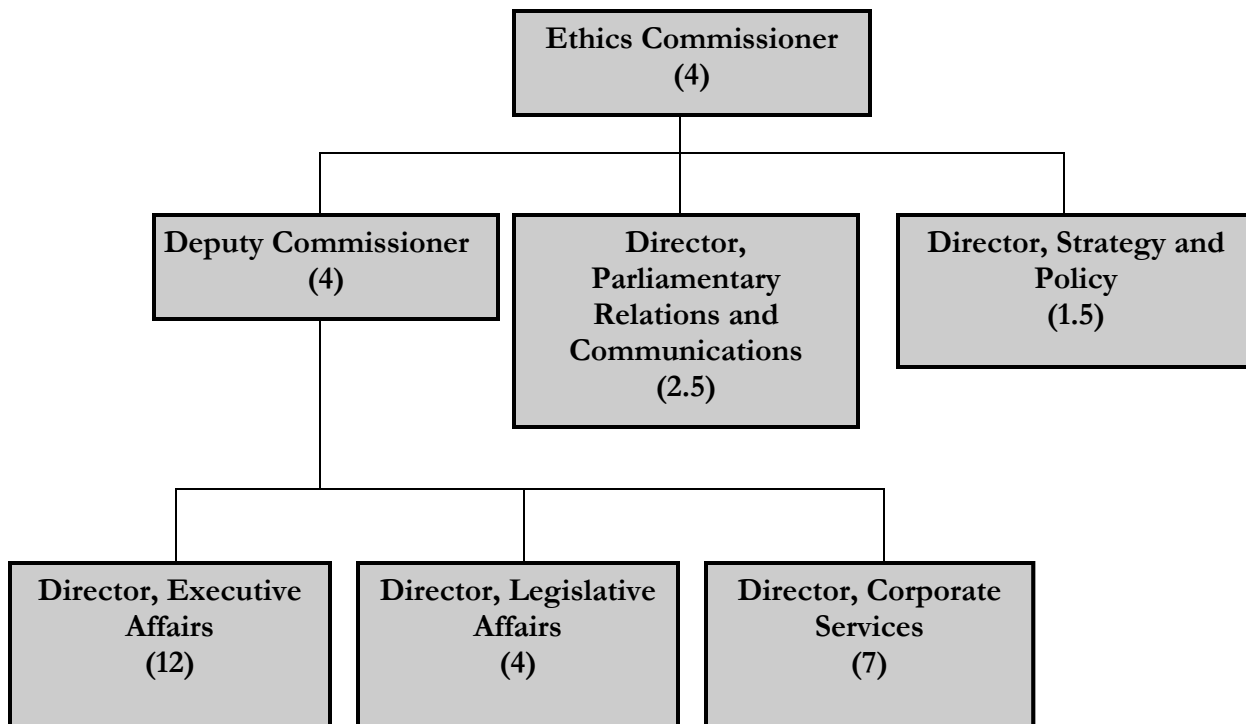
	<u>2006</u>	<u>2005</u>
	(in dollars)	
Accounts receivable with other government departments and agencies	172,569	4,069
Accounts payable to other government departments and agencies	70,027	912,087

8. Comparative Information

Comparative figures have been reclassified to conform to the current year's presentation. In addition, the adoption of new Treasury Board policies requiring that departments reflect employee severance liabilities, employee severance expense and that departments reflect services provided by other departments without charge (Note 6) have impacted the Statement of Operations, the Statement of Financial Situation, the Statement of Equity of Canada and the Statement of Cash Flow as follows:

	Statement of Operations	Statement of Financial Situation	Statement of Equity of Canada	Statement of Cash Flow
As previously stated	3,044,973	-	199,859	
Employee severance liability - Expense	(4,400)	(4,400)	(4,400)	
- Assumed on start-up		328,918	328,918	
Health and dental benefits	127,048			127,048
Accommodation	186,063			186,063
	<u>308,711</u>	<u>324,518</u>	<u>324,518</u>	<u>313,111</u>
Restated	<u>3,353,684</u>		<u>524,377</u>	
Increase in liabilities		<u>324,518</u>		
Services provided without charge				<u>313,111</u>

APPENDIX II



The number in brackets represents the number of direct reporting subordinate positions.
Total: 34 positions have been staffed

March 2006