

Report **TO** Members 2005

With Pride and Confidence

Message **FROM THE** Chair **AND** Executive Director



PETER VALENTINE, FCA
Chairman

With a quarter century of accomplishment behind us and an opportunity to make a continuing difference in Canada and abroad in the years ahead, CCAF celebrates its 25th anniversary in 2005 with pride in its past and confidence in its future.

We are pleased to bring you this report on our activities just as our members and special guests prepare to gather in Ottawa for our 2005 National Conference, October 17-18.

The conference promises to be one of our best ever, exploring the theme **Connecting to Canadians: Strategies for Change... Conditions for Success**. We have lined up

outstanding speakers and the panel discussions are geared to the interests of our members. We are pleased to have three dynamic co-chairs:

- **Sheila Fraser**, Auditor General of Canada
- **Rita Dionne-Marsolais**, MNA, Rosemont and Chair of the Committee on Public Administration, Québec National Assembly
- **Carol Layton**, Deputy Minister of Results Delivery, Cabinet Office, Government of Ontario.



MICHAEL EASTMAN, CMA
Executive Director

The conference will be a key tool in helping us to achieve CCAF's mission: to provide thought leadership and build knowledge and capacity for effective accountability, governance, management and audit.

This report contains our Financial Statements for the fiscal year ended March 31, 2005. In addition, to provide you with an up-to-date appreciation of CCAF's status on the eve of the National Conference, we report on our activities and results up to the end of June 2005, and look forward as well to the year ahead. Consistent with our timing for this report, we intend from now on to issue our annual report to members by mid-October.

Critical Aspects of Performance

In last year's report, we said it would be necessary to address issues in three areas: governance, financial and human resources and stakeholder relationships. Here is how we are progressing on these fronts.

Governance: Our new Board Governance Committee, chaired by David Hope, sought and received Board approval early in 2005 for a Governance Development Strategy. Under the strategy, the Committee is creating a Governors Handbook for CCAF, including the development and articulation of related terms of reference, policies and processes. It is also establishing a Board Evaluation Process and Timetable, and revising the Governor Nominating Process. These initiatives will allow your Board members to carry out their responsibilities with diligence and ensure that their actions are effective.

Financial and Human Resources: These are areas of significant risk for CCAF. For a number of years, the Foundation's funding declined as some members faced their own funding challenges. Revenues stabilized in the year ended March 31, 2004, and were level again for the year ended March 31, 2005. This suggests we have turned the corner on the problem of declining revenues. We have added four new Institutional Members: the Government of Nunavut, the Government of the Northwest Territories, the Canadian Air Transport Security Authority and the Internal Audit Division of the Government of Ontario. This provides us with a broader funding base and reduces the impact of the loss of any one member. The Board's decision early in 2005 to accept funds from sponsors for specific research initiatives consistent with our objectives will be an important measure for increasing revenue in 2005-2006.

On the expense side, the move of CCAF's offices in February 2005 will result in an annual saving of \$35,000 going forward, a substantial amount for our small organization.

CCAF's small size is also a factor in the management of our human resources. The unexpected loss of even one senior staff member, as happened this past year, can set our program activities back significantly. Succession planning is underway to reduce the impact of anticipated senior employee departures in 2005. In 2006, the number of research associates is likely to drop from three to two - consistent with our need to control expenditures tightly, but inconsistent with the ambitious scope of our research plan. This could have implications for our ability to accomplish as much as we would hope.

Stakeholder Relationships: Our Institutional Members Briefing Program, under which the Executive Director visits members in every province and territory at least once a year to exchange views on issues of importance to the membership, has consolidated relationships with our key funding members. Our National Conference will highlight our efforts to continue strengthening our relationships with our members and other stakeholders. We are also making a concerted effort to provide members with useful and user-friendly reports on our activities, in both print and electronic formats.

Challenges for the Year Ahead

We want to enhance our ability to fulfill the Foundation's mandate by addressing issues in three areas in the year ahead.

In March 2005, CCAF's Board of Governors identified three immediate priorities for the organization: funding, stakeholder communication and research.

Funding: Although our revenue has stabilized, we need to continue our efforts to align our goals with our capacity to achieve them. This will require a continuing tight rein on spending together with the development of new sources of financing through such initiatives as partnerships and joint ventures.

Stakeholder Communication: We recognize that maintaining strong stakeholder relationships must always be a high priority requiring ongoing investment and attention. We will communicate frequently with our members, providing them with information of value generated primarily from our research initiatives.

Research: CCAF's research results are the lifeblood of the organization. Our research enables us to bring people together for symposiums, forums and our national conference. It provides value to our members. It gives other organizations an incentive to partner with us. In the year ahead, we will ensure that progress is maintained on the research front and develop an action plan for CCAF's research post-2006.

25 Years of Achievement

As we look ahead to the challenges before us, we do so knowing that CCAF has met many challenges and achieved many accomplishments in the past. Among the highlights of our 25-year history are the following:

1980: Under the chairmanship of former Auditor General of Canada James J. Macdonell, the Canadian Comprehensive Auditing Foundation was created in response to a need for better governance, management and accountability in all parts of the public sector. Jean-Pierre Boisclair was appointed Executive Director.

1980: CCAF launched its International Fellowship Program, under which senior audit professionals from the audit institutions of developing countries come to Canada for a nine-month program of classroom and on-the-job audit training. Funded by the Canadian International Development Agency, the program aims to strengthen the role of performance auditing in the national audit offices of developing countries.

Early to mid-1980s: CCAF became the driving force behind the concept of comprehensive auditing, publishing over 15 studies on accountability and comprehensive auditing.

Mid to late 1980s: CCAF expanded its focus to look at effectiveness reporting by management in the public sector, in an effort to find means beyond financial performance to judge an organization's effectiveness.

Early to mid-1990s: CCAF developed a series of products to help management report on their effectiveness. It also produced its first governance support package - ***In Search of Effective Governance*** - introducing and elaborating on the characteristics of effective governance.

1995: The Foundation changed its name to CCAF-FCVI Inc. to reflect the focus on not just audit but also management and governance issues.

1996: CCAF published *Accountability, Performance Reporting, Comprehensive Auditing - An Integrated Perspective*, a 400-page textbook.

Mid to late 1990s: CCAF played a lead role in helping the Government of Canada modernize comptrollership. It also updated its educational programs building on recent research work in the areas of governance and accountability. One element of this concerns the development of the governance workshop aimed at members of governing bodies, chief executives and their senior professional advisors. Another element concerns the development of an integrated program of learning through workshops aimed at practitioners. CCAF also published a lexicon of terms related to governance, accountability and comprehensive auditing concepts in English, French Spanish and Arabic, and released it on-line.

2000: CCAF's principal activities are defined as research and education and other capacity-building support activities.

Early 2000s to present: CCAF now emphasizes capacity building and working through strategic partnerships and alliances. Research is focused on public performance reporting, accountability and audit, and shared governance-responsibility arrangements.

2004: Michael P. Eastman appointed Executive Director.

2005: CCAF's 25th Anniversary.

2005: CCAF's International Fellowship Program celebrates its 25th anniversary. It now has 168 graduate Fellows in 48 countries.

Over our 25-year history, many hundreds of prominent Canadians have played roles in CCAF's success as Board members, advisory committee members and participants at our events. We would like to thank them all for their generous contributions. We would particularly like to recognize those who have chaired our Board since our founding (see Text Box).

Peter Valentine
J. Douglas Barrington
John B. Cole
Gordon H. Cowperthwaite
James J. Macdonell

The remainder of this report addresses the following topics:

- CCAF Governance
- Research Activities
- International Activities
- CCAF Administration and Communications
- Financial Statement Discussion & Analysis

CCAF GOVERNANCE

CCAF's Board of Governors

Changes to CCAF Bylaws in 2004 led to an increase in the size of the Board from eight to 12. This change brings additional perspectives to the Board table and permits greater flexibility in Board operations.

Board members are leaders in their respective communities in the government, management, legislative audit, accounting profession, private and not for profit sectors. As at March 31, 2005, they are:

PETER VALENTINE, FCA (Chair)
Senior Advisor to the President & CEO
Calgary Health Region

MICHAEL J. MCLAUGHLIN, FCMA (Vice-Chair)
Vice-President and Chief Financial Officer
Canadian Air Transport Security Authority

J. BRYAN DISHER, FCA (Treasurer)
Managing Partner, Ottawa Office
PricewaterhouseCoopers

DORIS PARDIS, CA (Secretary)
Assistant Auditor General
Vérificateur général du Québec

KATHRYN BOUEY
Secretary and Deputy Minister
Management Board of Cabinet
Government of Ontario

DAVID BROWN, QC
Chairman
Ontario Securities Commission

NAVIN M. DAVE, CA, CMC
Canadian Managing Partner, Regions
KPMG LLP

DAVID A. HOPE, FCA
Chair
Canadian Institute of Chartered Accountants

JOHN A. MACNAUGHTON, CM
Former President & Chief Executive Officer
Canada Pension Plan Investment Board

RICHARD SMITH
Assistant Auditor General
Office of the Auditor General of Canada

We would like to thank two Governors who left the Board during the past year and who have worked so hard on your behalf: Jim Judd, Director, Canadian Security Intelligence Service; and Karn Sandy, Executive Director, Human Resources, University of Winnipeg.

HIGHLIGHTS OF BOARD STRUCTURE, OPERATION PRACTICES AND ACTIVITIES

ROLE

The Board is responsible for the preparation of the Foundation business plans and performance reports for presentation to members; governance (including nominations to the Board and to committees); research (including the preparation and monitoring of the Foundation's research agenda and plan); human resources; and audit (including financial, budgeting and internal control matters)

SIZE

The Board is composed of 12 members, 8 of whom were elected in July 2004 (two for a term of one year, and six for a term of two years). Since the Board had, in 2004, increased in size from eight to twelve, this staggered term approach preserves the basic principle that, in any one future year, one-half of the Governors shall be elected and shall retire in rotation.

STRUCTURE

The Board has two standing committees: the Audit Committee, and the Governance Committee.

The role of the Audit Committee (see membership below) is to advise the Board in fulfilling its oversight responsibilities by reviewing:

- Annual audited financial statements and related discussion and analysis
- The systems of internal control that have been established by management and the Board, and
- Associated matters with respect to accounting principles and audit processes.

The role of the Governance Committee (see membership below) is twofold:

- To lead, on behalf of the Board, the process of identifying, recruiting and appointing/re-appointing Governors
- To assist the Board in relation to matters concerning the operation and performance of CCAF's system of governance.

In addition, the Board may establish ad hoc committees or task forces involving its members and, as may be appropriate, members from outside the Board. In 2004-05, the Board decided to form the Financial Resources and Funding Strategy Task Force (see membership below) to assist the Board in its consideration of these critical issues.

MEETINGS

During 2004-05 (to June 2005), the Board met five times (July 2004, and in January, March, May and June of 2005). Other committees of the board (Audit and Governance) and the Financial Resources and Funding Strategy Task Force met several times throughout the year.

BOARD DEVELOPMENT INITIATIVES

A number of board development initiatives were taken in 2004-05:

- In July, the Board approved terms of reference for the Audit Committee and Governance Committee (formerly the Nominating Committee)
- Over the summer of 2004, the new Governance committee was formed. It held its inaugural meeting in October
- In January 2005, the Board approved a Governance Development Strategy that included three elements:
 - The creation of a Governors Handbook, explaining the terms of reference, policies and processes. As a first step in this regard, the Board approved policies relating to the terms of reference of the Board, Board Chair, Governors and the Executive Director
 - Establishment of a Governance Review Process
 - Revisions to the Governor Nominating Process.
- Over the February-March period, a governance review process was engaged, the results of which were factored into the 2005 Board nominating process and are being addressed further in the work of the Governance Committee
- In June, the Board received and discussed the results of the Governance Committee's work regarding the Board nominating process. A nomination list has been prepared and will be presented to CCAF members for election at the Annual General Meeting in October 2005.

AUDIT COMMITTEE

Chair

NAVIN DAVE, Canadian Managing Partner, Regions, KPMG LLP

Members

KATHRYN BOUEY, Secretary and Deputy Minister, Management Board of Cabinet, Government of Ontario

DAVID RATTRAY, Associate Partner, Centre for Public Management (Independent Member)

GOVERNANCE COMMITTEE

Chair

DAVID HOPE, Chair, Canadian Institute of Chartered Accountants

Members

NAVIN DAVE, Canadian Managing Partner, Regions, KPMG LLP

JOHN A. MACNAUGHTON, President and Chief Executive Officer, Canada Pension Plan Investment Board

DORIS PARADIS, Assistant Auditor General, Office of the Auditor General of Quebec

FINANCIAL RESOURCES AND FUNDING STRATEGY TASK FORCE

Co-Chairs

MICHAEL EASTMAN, Executive Director, CCAF

RICHARD SMITH, Assistant Auditor General, Office of the Auditor General of Canada

Members

BRYAN DISHER, Managing Partner, Ottawa Office, PricewaterhouseCoopers

MICHAEL J. McLAUGHLIN, Vice-President and Chief Financial Officer, Canadian Air Transport Security Authority

CCAF's Research Activities

The Planning Framework

CCAF's 2003-2006 Research Agenda and Plan was based on consultation with institutional members and key stakeholders and approved by the Board of Governors. It incorporates three broad initiatives:

- Public performance reporting
- Accountability and audit
- Shared governance-responsibility arrangements.

Each initiative is a multi-year, multi-phase program that comprises a mix of research and capacity-building projects. Components of the plan are adjusted in pacing or focus in response to new priorities, constraints or opportunities.

POLICY FRAMEWORK

Research is a continuum that entails several stages - from conceptual research, to applied research, to knowledge transfer, to capacity building, to best practices identification and analysis. Depending on the subject, CCAF's work can involve all or part of this research continuum. Given the "mission-critical" nature of CCAF's research activity, the Board plays a direct role in the formulation of research plans in addition to its stewardship responsibility to ensure sufficient capacity, control and accountability in relation to the implementation and performance of these plans. This role and these responsibilities are articulated in specific Board policy. This policy also makes provision for the establishment of advisory groups and task forces to guide and assist specific components of the Foundation's research agenda.

2004-2005 Activities and Results; Plans for 2005-2006

Overview: CCAF was active in all three program areas, with strong support from our stakeholders. This support was due in part to the close linkage of our research agenda with issues on the public policy agenda of Canada's senior governments. In March 2005, the Board reviewed and updated the research program to ensure it remained aligned with stakeholder interests and concerns.

Public Performance Reporting: In its third and final phase, this program is supporting action to put CCAF's recommended reporting principles into practice and is examining the issue of performance reporting from the perspective of the receiver of the information and the use to which the information could be put (the "Users and Uses" project).



CCAF ADVISORY GROUP ON PUBLIC PERFORMANCE REPORTING (as at November 2004)

Kathryn Bouey, Secretary and Deputy Minister, Management Board of Ontario

Sheila Fraser, Auditor General of Canada

D. Ian Glen, Chairperson, National Parole Board

Katherine Graham, Dean, Faculty of Public Affairs & Management, Carleton University

Michael Joyce, Assistant Secretary, Expenditure Operations and Reporting, Treasury Board of Canada, Secretariat

Geoffrey Kelley, MNA (Jacques-Cartier), and Chair of the Committee on Education, National Assembly of Quebec

Peter Kruselnicki, Deputy Minister of Finance and Secretary of Treasury Board, Alberta

Graham Steele, MLA (Halifax Fairview), and Chair of the Standing Committee on Public Accounts, Legislative Assembly of Nova Scotia

Daryl Wilson, Auditor General of New Brunswick

Ken Hoffman, Assistant Auditor General of Alberta, is the liaison contact with the Study Group on Performance Reporting and Auditing of the Canadian Council of Legislative Auditors

To publicize and encourage the use of the reporting principles, CCAF organized, chaired and/or participated in a wide variety of events. These included a Library of Parliament symposium for MPs and Senators, a Conference Board of Canada session and a conference of the Institute of Public Administration of Canada. We organized and chaired a symposium of management, audit and legislative leaders from across Canada to seek input and encourage best practices.

With our encouragement, the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants established a task force to develop recommendations for performance reporting by governments. The task force has adopted CCAF's reporting principles as the starting basis for its work. Similarly, the Canadian Council of Legislative Auditors (CCOLA) is using our principles for work it is doing on performance reporting and auditing.

We received valuable input and advanced the "Users and Uses" project by participating in the annual conference of the Canadian Council of Public Accounts Committees (CCPAC) in August 2004.

In 2005-2006, we will publish the results of our first Leaders Symposium on Public Performance Reporting and hold a second such symposium. We will also publish a research report on the "Users and Uses" project — first a research brief summarizing key issues and

RESOURCE AND OPERATING FRAMEWORK

CCAF's research program operated with approximately \$660,000 (2004-2005), which included salary and non-salary support. The core research team consists of the Director of Research supplemented by senior research associates seconded to CCAF to focus on a specific part of CCAF's research agenda.

There is a measure of uncertainty and risk associated with the sustainability of our current professional capacity. In 2006, the number of research associates is likely to drop from three to two as we complete current programs and activities.

findings for the National Conference, following which the full report will be published and a related communications/implementation strategy put in place.

Accountability and Audit: Our Parliamentary Oversight Committees (PAC) project is examining linkages between Committees and both the legislative audit and government management communities. It was advanced by two CCAF initiatives completed during 2004-2005: a background report on developments in legislative oversight in Britain and Australia and an initial survey of Canadian Public Accounts Committees, in cooperation with the Executive Secretariat of CCPAC. In addition, CCAF is partnering with the Office of the Auditor General of Alberta in a special study of Public Accounts Committees in western provincial legislatures. A separate study of Public Accounts Committees in the Territories is in the planning stages.

CCAF shared its initial PAC research findings and discussed the research program with members of CCPAC and CCOLA at their joint conference in August 2004. Further CCAF discussions with CCPAC/CCOLA are scheduled for August 2005. The interview component of the project got underway with the commencement of interviews with the chairs of Public Accounts Committees and Auditors General.

We will publish an exposure document summarizing key issues and findings for the National Conference, following which the full report will be published and a related communications/implementation strategy put in place.

In 2004-2005, CCAF published the results of the November 2003 National Forum of Chief Internal Auditors in Toronto and successfully carried out a second National Forum in Victoria in October 2004. All of Canada's provincial and territorial chief internal auditors, as well as the Executive Director of the federal Centre of Excellence for Internal Audit attended the 2004 Forum.

CCAF published the proceedings of the 2004 Forum in May 2005. We have now established the Forum as an annual event, with ongoing funding support from the Internal Audit Division of Ontario's Management Board Secretariat. The 2005 Forum will take place in Quebec City in October.

This project was also advanced through several other initiatives, including the identification and analysis of key issues affecting the internal audit community, the preparation and dissemination of a discussion paper and the creation of a working group of chief internal auditors to help CCAF organize the Forums.

Other important developments in 2004-2005 included the creation of the CCAF Advisory Group on Accountability and Audit (with high profile members from the key communities of interest and project-specific

ADVISORY GROUP ON ACCOUNTABILITY AND AUDIT

Rita Dionne-Marsolais, MNA (Rosemont) and Chair of the Committee on Public Administration, National Assembly of Quebec
Fred J. Dunn, Auditor General of Alberta
Carman Lapointe-Young, Auditor General of the World Bank Group
Carol Layton, Deputy Minister of Results Delivery, Results Office, Cabinet Office of Ontario
David McLaughlin, Executive Director, Advisory Panel on Fiscal Imbalance, Council of the Federations (formerly Deputy Minister, New Brunswick, Commission on Legislative Democracy)
Michael J. McLaughlin, Vice-President and Chief Financial Officer, Canadian Air Transport Security Authority
John L. Noseworthy, Auditor General of Newfoundland & Labrador
Jon W. Singleton, Auditor General of Manitoba
Charles-Antoine St-Jean, Comptroller General of Canada
Ken Stewart, former MLA (Maple Ridge-Pitt Meadows) and Chair of the Select Standing Committee on Crown Corporations, British Columbia Legislative Assembly
Axel Thesberg, Canadian Managing Partner, National Assurance Centre and Professional Practice, KPMG
John Wiersema, Deputy Auditor General of Canada
John Williams, MP (Edmonton-St. Albert) and Chair of the Standing Committee on Public Accounts, House of Commons

sub-committees); and the publication of the *Accountability and Audit Program: Improving Accountability, Enhancing Public Confidence — Information Brochure for Interested Parties*.

Depending on resource availability and the results of consultations, CCAF may begin work on two new projects under this program. The first would examine interaction between audit, management and Boards/audit committees in Crown Corporations. The second would study governance and accountability arrangements vis-à-vis transfer payments.

Shared Governance-Responsibility Arrangements: Under the Shared Governance Program, CCAF and the Canadian Healthcare Association completed a joint consultation process and published *Excellence in Canada's Health System - Principles for Governance, Management, Accountability and Shared Responsibility*. The two organizations are implementing a joint communications strategy and considering next steps for the project.

CCAF is currently studying the feasibility of developing an accountability reporting framework for governments and non-governmental organizations regarding Canadian contributions to Asian Tsunami relief and reconstruction. We are also assessing the potential to conduct research and capacity building projects in two areas: horizontal issues and partnerships.

In November 2005, CCAF will hold an Environmental Audit Symposium to examine the challenges and constraints in environmental auditing in a shared governance context.

INTERNATIONAL ACTIVITIES

International Fellowship Program

The International Fellowship Program continues to earn a very strong reputation at home and worldwide. In fact, there is strong demand on the part of many international partners to participate in this program. Its success over these past 25 years is due in large part to the unwavering commitment of our partners: the Canadian International Development Agency (CIDA), the Office of the Auditor General of Canada, the Office of the Auditor General of Quebec and the national audit offices of the participating countries.

During the period covered by this Annual Report, we completed another successful session of the Program. The class of 2004-05 graduated in May 2005 and the Fellows have returned to their home organizations with a wealth of knowledge and techniques concerning comprehensive/value-for-money/performance auditing and the task of disseminating these within their national audit office. We wish them well in this endeavour and in implementing their special projects developed in Canada.

2004-2005 CLASS OF FELLOWS

ARGENTINA	<i>Sébastien Gil</i> Office of the Auditor General for the Republic of Argentina
BRAZIL	<i>Carlos Modena</i> Court of Accounts of Brazil
GUYANA	<i>Claireann James</i> Office of the Auditor General of Guyana
PAKISTAN	<i>Imran Iqbal</i> Office of the Auditor General of Pakistan
TRINIDAD & TOBAGO	<i>Reahla Balroop</i> Office of the Auditor General of Trinidad & Tobago

The 2005-2006 class of Fellows will have a strong Africa focus, with representatives from Benin, Cameroon and Tanzania. Rounding out the class will be participants from Costa Rica and Thailand. The two participants from Benin will be hosted by the Auditor General of Quebec.

2005-2006 CLASS OF FELLOWS	
BÉNIN	<i>Benoît Azodjilande</i> Chambre des Comptes de la cour suprême du Bénin
	<i>David Sobinto</i> Chambre des Comptes de la cour suprême du Bénin
CAMEROUN	<i>Pauline Kane Fortune</i> Contrôle Supérieur de l'État
COSTA RICA	<i>José Alpizar Fallas</i> Office of the Comptroller General of Costa Rica
TANZANIA	<i>Grace Mugyabuso</i> Office of the Controller and Auditor General of Tanzania
	<i>James Ryoba</i> Office of the Controller and Auditor General of Tanzania
THAILAND	<i>Sirintorn Phankasem</i> Office of the Auditor General of Thailand

With the valuable guidance of the CCAF's International Committee, headed by former Canadian Ambassador Nick Hare, we adjusted both the administration and strategic approach of the program and are moving forward with several important initiatives, including:

- A concentration on fewer countries over a shorter time period (based on CIDA priorities) in order to build a critical mass of experts in comprehensive/value-for-money/performance auditing in those national audit offices;
- An increased emphasis on the development by each Fellow of a strategic project that Fellows are to implement upon their return home;
- An adjusted selection criteria for candidates and countries, to increase the probability of success and to ensure momentum is maintained post-graduation; and,
- An increased focus on post-graduate activities including regular program impact assessments conducted with both graduating Fellows and the heads of national audit offices; regular progress reports regarding the implementation of special projects and the dissemination of the knowledge brought back from Canada; and the development of a policy for approving post-graduate support requests.

CCAF INTERNATIONAL COMMITTEE
<i>Nick Hare</i> , Chair
<i>Antonine Campbell</i> , Principal, International Relations, Office of the Auditor General of Canada
<i>Yves Gauthier</i> , Vice-President of Risk Management, Desjardins Securities
<i>Marie-France Laverrière</i> , Director, Auditor General of Quebec
<i>John R. Sharpe</i> , Past Chair
<i>Ronald Thompson</i> , Assistant Auditor General of Canada
Ex-Officio
<i>Michael P. Eastman</i> , Executive Director, CCAF
CIDA Representative
<i>Robert Morrow</i> , Senior Program Officer
Committee Secretary
<i>Marc Meloche</i> , Director, Strategic Planning and International Affairs, CCAF

In early 2006, we intend to submit to CIDA a proposal for the renewal and expansion of the program. In preparation, CIDA has commissioned a program evaluation later in 2005 and we will undertake a strategic planning exercise. These, along with the results of a CCAF impact assessment/evaluation questionnaire to be sent to former Fellows and their heads of national audit offices, will inform the development of this renewal proposal.

Other International Activities

We have contributed significantly to the development of a proposal involving the Government of Canada (Office of the Comptroller General), the Government of Ontario (Internal Audit Division), the City of Toronto (Auditor General of Toronto), governments in South Africa, The Institute of Internal Auditors and The World Bank to build capacity in South Africa in the area of internal audit. The proposal is for a program similar to the International Fellowship Program that would be administered by CCAF on a revenue neutral basis.

CCAF ADMINISTRATION AND COMMUNICATIONS

The staff of CCAF has worked to meet the needs of members in 2004-2005 by conducting research, managing programs, meeting and communicating with members and other stakeholders, organizing events and carrying out the numerous other tasks required of a smoothly operating Foundation. This past year has been particularly challenging for two reasons: the move to new offices in Ottawa and the preparations for our 25th Anniversary National Conference in October 2005.

Our thanks to each and every staff member for their contributions to our success.

LYNNE CASIPLE-LUECK
Computer Specialist

DAVID MOYNAGH
Director of Research

ELIZABETH (LIZ) DOMBROSKIE
Services Coordinator

DANIEL B. RUBENSTEIN
Senior Research Associate

CAROLINE JORGENSEN
Manager, International Programs

RONA SHAFFRAN
Senior Research Associate

ELIZABETH (LIBBY) MACRAE
Senior Research Associate

NICOLE WIECZOREK
Director of Corporate Services
and Chief Financial Officer

MARC MELOCHE
Director, Strategic Planning and
International Affairs

Communications

CCAF's newly redesigned website - www.ccaf-fcvi.com - offers members and visitors alike an attractive and easily navigable format for accessing information and services from the Foundation. Through the website, members can obtain copies of current research reports, read UPDATE articles for news about CCAF members or activities, search the archives for documents published in past years and register for the National Conference.

The website supplements our other means for communicating with Members, including email and regular mail. In January 2005, we launched a new format for our email messages to make them more eye-catching and easier to read.



We hope that as many of our members as possible will attend our National Conference, which will take place October 17-18 in Ottawa. An exceptional group of keynote speakers and panelists will discuss the three conference themes:



- Public Accountability - Taking it to the Next Level
- Parliamentary Reform - Enhancing the Role of the Legislator and Legislature in the Public Accountability Process
- Citizen Engagement - Balancing Expectations and Realities

The overall conference theme is **Connecting to Canadians: Strategies for Change... Conditions for Success**. We hope to see you there.

2005 NATIONAL CONFERENCE COMMITTEE

NAOMI MELLOR
Executive Director, School Finance
Saskatchewan Department of Learning

GARY PEALL
Deputy Auditor General
Office of the Auditor General of Ontario

GRANT ROBERTSON
Executive Director, Ministerial Projects and Liaison
Alberta Finance

MERWAN SAHER
Assistant Auditor General, Professional Practice
and Quality Assurance
Office of the Auditor General of Alberta

RON SALOLE
Vice-President, Standards
Canadian Institute of Chartered Accountants
(CICA)

ROBERT SIDDALL
Provincial Controller, Office of the Controller
Ontario Ministry of Finance

RICHARD SMITH
Assistant Auditor General
Office of the Auditor General of Canada

FINANCIAL STATEMENT DISCUSSION & ANALYSIS

The purpose of this "discussion and analysis" section is to let readers see CCAF's financial statements through the eyes of CCAF's management and Board and to explain any significant items, fluctuations or changes in policies affecting the presentation of our financial statements.

The financial statements of the Foundation for the year ended March 31, 2005, together with the auditor's opinion thereon, are presented in this report. Having budgeted and obtained approval from our Board of Governors for a planned deficit of \$120K for the year, we are pleased to report that the deficit position at year end was approximately \$75K.

CCAF's Audit Committee has met with the Foundation's auditors, Welch and Company. The auditors reported to the Audit Committee that there were no significant deficiencies in CCAF's systems of internal control. The Audit Committee subsequently met with the Board of Governors on June 30, 2005 and recommended and received approval of the financial statements herein enclosed.

Revenue Trends and Expectations

Over the last couple of years, CCAF has reported having experienced significant funding reductions from its base membership. Funding levels have stabilized however, CCAF will have to explore other avenues of funding to supplement the existing base and to allow us to carry out our planned program of research and capacity development.

Expenditure Levels

CCAF's last annual report made reference to the absence of salary expense related to the Executive Director's position (April - December 2003). This also plays a factor in the increase demonstrated in CCAF program expenses from 2004 to 2005. Salary expense is the most significant charge to program expenditures and as a result of increased activity in the areas of research, communications and stakeholder relations, costs allocated to these program expenses have also increased over the past year.

CCAF reported in 2004 that it had changed its policy with respect to salary allocations to more accurately reflect Secretariat responsibility areas. CCAF establishes the allocations at the beginning of each fiscal year and periodically reviews their accuracy, making changes as necessary. The majority of our salary costs are in the area of program expenses, in particular research and development.

Salaries and benefits displayed in the 2005 financial statements include a two-year tax credit taken in 2005 due to a ruling received from the provincial government advising CCAF of eligibility for said tax credit. Salaries and benefits are lower than usual as a result but will increase to more historical levels in 2006.

CCAF reported in 2004 that it was examining options with respect to its office premises. Effective 2005, CCAF has entered into a lease agreement at a new location. Significant savings will be realized over the course of the five-year lease in comparison to current year levels (see note 10).

Board and Executive meetings have increased in 2005 for the most part due to an increase in activity by our Governance Committee. CCAF also saw its Board size increase slightly as a result of bylaw amendments.

Office and general operating costs for 2004 included a one time cost for the recruitment for the position of executive director. Expenses under this category for 2005 have returned to more historical levels.

FINANCIAL STATEMENTS

For

CCAF-FCVI INC.

For year ended

MARCH 31, 2005



Welch & Company LLP
Lévesque Marchand, Chartered Accountants

AUDITORS' REPORT

To the members of

CCAF-FCVI INC.

We have audited the statement of financial position of the CCAF-FCVI Inc. as at March 31, 2005 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS

Ottawa, Ontario
May 16, 2005.

CCAF-FCVI INC.
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2005

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 298,429	\$ 390,803
Accounts receivable	149,946	49,624
Prepaid expenses	<u>26,628</u>	<u>27,114</u>
	475,003	467,541
 EQUIPMENT AND LEASEHOLD IMPROVEMENTS - note 4	 <u>14,789</u>	 <u>13,909</u>
	<u>\$ 489,792</u>	<u>\$ 481,450</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 87,659	\$ 80,436
Deferred revenue - note 5	95,163	15,354
International program funds payable - note 6	<u>30,460</u>	<u>34,563</u>
	<u>213,282</u>	<u>130,353</u>
 NET ASSETS	 <u>276,510</u>	 <u>351,097</u>
	<u>\$ 489,792</u>	<u>\$ 481,450</u>

Approved on behalf of the Board:

..... *Moris Paradis* Director

..... *Peter Valente* Director

(See accompanying notes)

CCAF-FCVI INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2005

	<u>2005</u>	<u>2004</u>
REVENUE		
Membership fees and contributions	\$ 997,322	\$ 1,001,061
Research contributions	142,174	148,981
Net revenue from publications - note 7	836	4,844
Interest and other	<u>2,498</u>	<u>3,501</u>
	<u>1,142,830</u>	<u>1,158,387</u>
PROGRAM EXPENSES		
Research and development	657,689	540,441
Communications	93,883	53,103
Stakeholder relations	<u>74,002</u>	<u>1,795</u>
	<u>825,574</u>	<u>595,339</u>
GENERAL EXPENSES		
Salaries and benefits - note 8	184,382	202,972
Rent	91,089	95,556
Board and executive meetings	25,891	15,953
Office and general operating costs	74,900	92,842
Amortization	<u>15,581</u>	<u>11,801</u>
	<u>391,843</u>	<u>419,124</u>
	<u>1,217,417</u>	<u>1,014,463</u>
NET REVENUE (EXPENSE)	(74,587)	143,924
NET ASSETS AT BEGINNING OF YEAR	<u>351,097</u>	<u>207,173</u>
NET ASSETS AT END OF YEAR	<u>\$ 276,510</u>	<u>\$ 351,097</u>

(See accompanying notes)

CCAF-FCVI INC.
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2005

	<u>2005</u>	<u>2004</u>
CASH PROVIDED BY (USED IN)		
Operating activities		
Net revenue (expense)	\$ (74,587)	\$ 143,924
Items not requiring a current outlay of cash:		
Amortization	<u>15,581</u>	<u>11,801</u>
	(59,006)	155,725
Changes in level of:		
Accounts receivable and prepaid expenses	(100,322)	(12,100)
Accounts payable and accrued liabilities	7,223	62,522
Deferred revenue	<u>79,809</u>	<u>11,204</u>
	<u>(72,296)</u>	<u>217,351</u>
Investing activities		
Purchase of equipment and leasehold improvements	<u>(16,461)</u>	<u>(11,443)</u>
Financing activities		
International program funds advanced - net of expenditures	<u>(4,103)</u>	<u>(21,886)</u>
NET CASH FLOWS	(92,860)	184,022
CASH, BEGINNING OF YEAR	<u>390,803</u>	<u>206,781</u>
CASH, END OF YEAR	<u>\$ 297,943</u>	<u>\$ 390,803</u>

(See accompanying notes)

CCAF-FCVI INC.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2005

1. **AUTHORITY AND OPERATIONS**

The Foundation was established in 1980 by letters patent under the provision of Part II of the Canada Corporations Act.

The Foundation provides thought leadership and builds both knowledge and capacity for effective governance and meaningful accountability, management and audit. The focus for, and beneficiary of, the Foundation's work is the public sector. The Foundation's principal activities are research, education, and other capacity-building support programs in the following areas: governance information and related governance and accountability practices; integrated (non-financial & financial) performance information used to report publicly or to support strategic and business planning and results improvement; comptrollership and related management approaches and practices comprising performance information, risk, control and ethics; performance auditing, including but not limited to, audits of performance information reported to governing bodies and/or the public; and, auditing of stewardship, management, comptrollership and other results-oriented management practices.

The Foundation was organized and is operated for the purposes outlined above and as such is not taxable under the Income Tax Act of Canada.

2. **ACCOUNTING POLICIES**

a) *Membership fees and contributions*

Membership fees are taken into revenue in the year which they are earned. Contributions have been recorded using the deferral method of accounting for contributions. Under the deferral method, contributions are taken into revenue in the year in which they are earned.

b) *Development costs*

The Foundation develops courses and publications for the purposes outlined in note 1. Fees charged for the use and purchase of such items are generally set such that only direct costs are recovered. All costs related to development of courses and publications are expensed in the year incurred.

c) *Publications and course materials*

The Foundation records costs of publications and course materials as prepaid expenses. Due to the uncertainty of recovering direct costs incurred in the production of publications and course material, such costs are recorded at \$1 on the Statement of Financial Position.

d) *Equipment and leasehold improvements*

Furniture, office equipment and leasehold improvements are stated at acquisition cost.

Amortization of furniture and office equipment is provided on the straight-line basis over a three year period. Amortization of leasehold improvements is provided on a straight-line basis over the expected remaining term of the lease.

e) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CCAF-FCVI INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2005

3. **FINANCIAL INSTRUMENTS**

The Foundation's financial instruments consist of cash, accounts receivable and accounts payable as well as international program funds payable. Unless otherwise noted, it is management's opinion that the Foundation is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short term nature.

4. **EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

The equipment, leasehold improvements and related accumulated amortization are as follows:

	<u>2005</u>	<u>2004</u>
Furniture, office equipment and leasehold improvements	\$ 109,368	\$ 92,907
Accumulated amortization	<u>94,579</u>	<u>78,998</u>
	<u>\$ 14,789</u>	<u>\$ 13,909</u>

5. **DEFERRED REVENUE**

Deferred revenue consists of various operating and research contributions related to periods subsequent to the year end as summarized below:

	<u>Operating</u>	<u>Research</u>	<u>Total</u>
Balance, March 31, 2004	\$ 15,354	\$ -	\$ 15,354
Recognized as revenue in the year	(15,354)	-	(15,354)
Received in year and applicable to subsequent periods	<u>25,663</u>	<u>69,500</u>	<u>95,163</u>
Balance, March 31, 2005	<u>\$ 25,663</u>	<u>\$ 69,500</u>	<u>\$ 95,163</u>

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CCAF-FCVI INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2005

6. INTERNATIONAL PROGRAM FUNDS

The Foundation coordinates a program designed to improve the process of public sector governance in developing countries. International program costs are funded by the Canadian International Development Agency (CIDA), with in-kind contributions from the Offices of the Auditors General of Canada and Québec and participating Supreme Audit Institutions. The current contributions agreement with CIDA, which expires March 31, 2007, provides for annual funding of up to \$354,000. CIDA pays the direct costs associated with this program and makes a contribution to the Foundation's general overhead.

The financial activities of the international program consist of the following:

	<u>2005</u>	<u>2004</u>
a) Revenues and expenses		
Program revenues	\$ 358,153	\$ 375,995
Direct expenses	244,102	287,001
Administrative expenses	<u>114,051</u>	<u>88,994</u>
	<u>\$ 358,153</u>	<u>\$ 375,995</u>
b) Flow of program funds		
Funds payable at beginning of year	\$ 34,563	\$ 56,449
Advances received from CIDA	354,050	354,109
Expenditures for year	<u>358,153</u>	<u>375,995</u>
Funds payable at end of year	<u>\$ 30,460</u>	<u>\$ 34,563</u>

7. NET REVENUE FROM PUBLICATIONS

Net revenue from publications consists of the following and does not include any allocation for overhead.

	<u>2005</u>	<u>2004</u>
Revenue	\$ 984	\$ 5,170
Expenses	<u>148</u>	<u>326</u>
	<u>\$ 836</u>	<u>\$ 4,844</u>

CCAF-FCVI INC.

NOTES TO THE FINANCIAL STATEMENTS - Cont'd.

YEAR ENDED MARCH 31, 2005

8. **SALARIES AND BENEFITS**

The total amount of salaries and benefits was \$876,080 (2004 - \$756,650). Salaries are allocated to various operational areas as outlined in the following table.

	<u>2005</u>	<u>2004</u>
Research	\$ 507,723	\$ 461,133
Communications	73,322	42,545
International program	58,347	50,000
Stakeholder relations	52,306	-
General salary expense	184,382	202,972

9. **MEMBERSHIP FEES AND CONTRIBUTIONS**

The Foundation derives approximately one third of its membership revenue from a single member.

10. **COMMITMENTS**

Lease

The Foundation has entered into a lease agreement for office premises with the following annual commitments. The lease expires February 28, 2010.

2006	\$ 70,075
2007	72,177
2008	74,342
2009	76,562
2010	72,117

11. **COMPARATIVE FIGURES**

Comparative figures have been reclassified where necessary to conform to the presentation adopted for the current year.