



CCRA **Financial Statements** 2000-2001 **Annual Report** to Parliament

More Ways to Serve You!
Pour vous servir encore mieux !



Canada Customs
and Revenue Agency

Agence des douanes
et du revenu du Canada

Canada

Accountability, the title of the first *Annual Report* to Parliament of the Canada Customs and Revenue Agency (CCRA), embodies two themes: **account** and **ability**. **Account** represents the CCRA's declaration of what we have accomplished following our transition to agency status. **Ability** symbolizes the capacity of the CCRA's workforce to realize the promise of agency status. In both themes, a common thread emerges: that teamwork has been key to the successes that we have realized to date and is also essential to achieving the objectives set out in our 2000-2001 to 2002-2003 *Corporate Business Plan*.

Accountability comprises three volumes. The *CCRA Performance Report* provides an agency-wide overview of our program delivery results. The *Annex: Supplementary Performance Information by Business Line* provides the details on our performance in each of the CCRA's five main business lines. The last volume, *CCRA Financial Statements*, provides the financial exhibits for our operations and responsibilities in 2000-2001.



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Introduction

Overview

The Financial Statements pertaining to the activities of the Canada Customs and Revenue Agency (CCRA) are the second such statements prepared by the CCRA and the first ones to be included in the CCRA's first *Annual Report*. These activities present the financial information in accordance with the accounting principles of the Government of Canada. The Auditor General of Canada's opinions pertaining to these financial statements are contained in this report. Beyond the audited financial statements, this document contains additional unaudited supplementary financial information relating to matters reported in the financial statements. The reports of the Auditor General on the financial statements do not extend to this supplementary information.

The CCRA maintains financial and management control systems and practices that provide reasonable assurance the information presented constitutes a fair and frank accounting of how well the CCRA is performing against the objectives it set out to accomplish. To ensure a high level of assurance, Internal Audit conducts independent reviews of various aspects of the CCRA's performance information. In addition, internal and external auditors have access to the audit and governance committees of the Board of Management, which oversees management's responsibilities for maintaining adequate internal control and financial/performance reporting systems. These committees recommend the *Annual Report* to the Board of Management for subsequent approval by the Minister.

Significant developments

Over the course of the fiscal year under review (2000-2001), the CCRA met the challenge of a growing and more complex workload through: the selective application of technology; the re-engineering of business processes; the introduction of innovative modes of service delivery; and, as always, the judicious reprofiling and realignment of resources. The CCRA adopted a resource management strategy with financial support from the Government, which enabled the CCRA to respond to evolving pressures, and to improve its capacity to work towards long-term investments, critical to the ongoing success of the CCRA.

Audited

Financial Statements







Statement of Management Responsibility

We have prepared the accompanying Statements of Operations of the Canada Customs and Revenue Agency in accordance with accounting principles consistent with those applied in preparing the financial statements of the Government of Canada and with the reporting requirements of the Receiver General for Canada for departmental corporations. Significant accounting policies are set out in Note 2 to each of the Statements.

Responsibility for the integrity and objectivity of data in these financial statements rests with the management of the Agency. In order to assure maximum objectivity and freedom from bias, the financial statements are approved by the Agency's Audit Committee on behalf of the Board of Management. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

Some of the information, such as accruals and services provided without charge by other government departments, included in the Statements of Operations, are based on management's best estimates and judgments with due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts which provides a record of the Agency's financial transactions. Financial information contained in the *Public Accounts of Canada* is consistent with these Statements of Operations.

The Agency maintains systems of financial management and internal control which give due consideration to costs, benefits and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament and are executed in accordance with prescribed regulations, and are properly recorded so as to maintain accountability of Government funds and safeguarding of its assets. Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The Agency also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that its regulations, policies, standards and managerial authorities are understood throughout the organization.

The Auditor General of Canada conducts independent audits and expresses opinions on the accompanying financial statements.

Approved by:

Rob Wright
Commissioner

Ottawa, Ontario
July 23, 2001

D. G. J. Tucker
Chief Financial Officer and Assistant Commissioner
Finance and Administration





Statement of Operations – Agency Activities





AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Board of Management of the Canada Customs and Revenue Agency
and the Minister of National Revenue

I have audited the Statement of Operations – Agency Activities of the Canada Customs and Revenue Agency for the year ended March 31, 2001. This financial statement is the responsibility of the Agency's management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 my opinion, this financial statement presents fairly, in all material respects, the results of the Agency's operations of its Agency Activities for the year ended March 31, 2001 in accordance with the accounting policies set out in Note 2 to the financial statement.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
July 23, 2001



Statement of Operations – Agency Activities

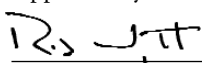
for the year ended March 31
(in thousands of dollars)

	2001	2000 (Restated–Note 3)
OPERATING AND ADMINISTRATION EXPENDITURES		
Services		
Personnel		
Salaries	1,919,013	1,839,989
Other allowances and benefits	672,499	617,191
	2,591,512	2,457,180
Accommodation	214,326	196,317
Transportation and communications	174,010	160,377
Professional and special services	163,500	148,354
Transfer payments to the Province of Quebec (GST joint administration)	118,953	94,901
Purchased repair and maintenance	81,890	58,647
Other services	44,507	57,690
Rentals	11,414	11,656
Information	4,948	2,478
Utilities	598	587
	3,405,658	3,188,187
Goods		
Equipment	94,501	97,748
Materials and supplies	63,578	61,736
Land, building and works	2,888	15,323
	160,967	174,807
Other expenditures		
Subsidies and other	2,365	3,103
Total operating and administration expenditures	3,568,990	3,366,097
NON-TAX REVENUE (Note 5)	213,249	201,035
NET COST OF OPERATIONS	3,355,741	3,165,062

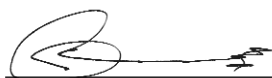
Contingent liabilities (Note 11)

The accompanying notes are an integral part of this statement.

Approved by:



Rob Wright
Commissioner



Michael L. Turcotte
Chair, Board of Management

Notes to the Statement of Operations – Agency Activities

1. Authority and purpose

The Canada Customs and Revenue Agency (the “Agency”) was established effective November 1, 1999, under the *Canada Customs and Revenue Agency Act*. The Agency was established to support the evolution of tax administration and customs services in Canada.

The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue. The Agency’s expenditures are funded by the Government of Canada through appropriations.

The Agency’s mandate is to provide support, advice and services when:

- (a) supporting the administration and enforcement of the program legislation;
- (b) implementing agreements between the Government of Canada or the Agency and the government of a province or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the Agency and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and aboriginal governments to administer a tax.

In delivering its mandate, the Agency:

- collects revenues and administers tax laws for the federal government and for certain provinces and territories and others, including First Nations;
- provides border services and administers legislation governing international trade and travel; and
- delivers certain social and economic benefit programs to Canadians, through the tax system.

For financial reporting purposes, the activities of the Agency have been divided into two Statements of Operations: Agency Activities and Administered Activities. This Statement of Operations – Agency Activities includes those operational revenues and expenditures which are controlled by the Agency and utilized in running the organization. The separate Statement of Operations – Administered Activities has been divided into two components: administered revenues and administered expenditures. It includes those revenues and expenditures which are controlled by someone other than the Agency, such as the federal government, a province or territory, or other groups or organizations, but are managed by the Agency on their behalf. The purpose of the distinction between Agency and Administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the Agency in achieving its mandate.

The Agency administers, on behalf of others, income taxes and sales taxes, Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, as well as amounts collected for other groups or organizations. The Agency is responsible for the administration and enforcement of the following acts, and certain other acts for which the Minister of National Revenue has a mandated role: *Canada Customs and Revenue Agency Act*, *Children’s Special Allowances Act*, *Customs Act*, *Customs Tariff*, *Department of National Revenue Act*, *Excise Act*, *Excise Tax Act* (includes Goods and Services Tax (GST)/Harmonized Sales Tax (HST)), *Income Tax Act*, and others.

The Minister of National Revenue is responsible for the Agency and remains accountable to Parliament for the administration and the enforcement of the various tax and customs programs' legislation.

2. Significant accounting policies

As required by section 88(2)(a) of the *Canada Customs and Revenue Agency Act*, the Statement of Operations – Agency Activities has been prepared in accordance with accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. In addition, the Statement of Operations – Agency Activities has been prepared following the reporting requirements established for departmental corporations by the Receiver General for Canada. The most significant accounting policies are as follows:

(a) Expenditure recognition

All expenditures are recorded on the accrual basis.

(b) Non-tax revenue recognition

All non-tax revenue is recorded on the accrual basis. Non-tax revenue reported in this statement excludes administered revenues collected under the authority of the *Income Tax Act*, the *Customs Act*, the *Excise Act*, the *Excise Tax Act* and other similar legislation.

(c) Capital asset purchases

Acquisitions of capital assets are charged to operating and administrative expenditures in the year of purchase.

(d) Refunds of previous years' expenditures

Refunds of previous years' expenditures are recorded as non-tax revenue and are not deducted from expenditures.

(e) Services provided without charge by other government departments

Estimates of amounts for services provided without charge by other government departments are included in expenditures. Those amounts include:

- accommodation provided by Public Works and Government Services Canada,
- accommodation provided by Transport Canada,
- employer's contributions to the health insurance plan provided by Treasury Board,
- workers' compensation benefits provided by Human Resources Development Canada,
- audit services provided by the Office of the Auditor General of Canada, and
- legal services provided by Justice Canada.

(f) Contribution to Public Service Superannuation Plan

The Agency's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Agency contribute to the cost of the Plan. Contributions by the Agency are charged to expenditures in the period incurred and represent the total pension obligation of the Agency to the Plan. The Agency is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and is not entitled to surpluses.

(g) Employee termination benefits, vacation pay and compensatory leave

Employee termination benefits, vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The employee termination benefits liability is estimated using the Government of Canada's demographic population characteristics and demographic population assumptions. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees. Employee termination benefits and vacation pay leave liabilities payable on cessation of employment represent obligations of the Agency that are normally funded through the Treasury Board.

Beginning with the 2001-2002 fiscal year, the Government has changed its accounting policies to a form of full accrual accounting. Concurrently, the Agency is also implementing these new policies and will prepare a full set of financial statements pertaining to Agency Activities, i.e. Statement of Financial Position, Statement of Operations, Statement of Equity of Canada and a Statement of Cash Flows beginning with the fiscal year ending March 31, 2002.

3. Change in accounting policies

The Agency's accounting policy is to record termination benefits, accumulated vacation pay and compensatory leave as the benefits are earned by the employees. Previously, these amounts were recorded on a cash basis. This change has been applied on a retroactive basis. The net effect is to increase the March 31st, 2000 other allowances and benefits expenditure, total operating and administration expenditures, and the net cost of operations by \$37,994,000. These expenditures have no impact on the availability of funds in the reporting years. There is, however, an impact on future funding requirements as shown in note 4.

The corresponding liabilities are included in note 7.

4. Parliamentary appropriations

	2001	2000 (restated-Note 3)
	(in thousands of dollars)	
Vote 1-CCRA (Operating expenditures)	4,053,757	2,409,874
Less: Relief for Heating Expense payments ¹	1,459,267	-
Less: amounts available for use in subsequent years for Relief for Heating Expense payments ¹	62,552	-
Less: amounts available for other uses in subsequent year	115,230	69,264
	2,416,708	2,340,610
Vote 5-CCRA (Capital expenditures)	13,733	15,727
Less: amounts available for use in subsequent year	3,733	6
	10,000	15,721
Vote 10-CCRA (Transfer payments)	121,655	95,000
Less: amounts available for use in subsequent year	2,702	99
	118,953	94,901
Add: Statutory contributions to employee benefit plans	414,548	394,479
Spending of revenues received through the conduct of its operations pursuant to section 60 of the <i>CCRA Act</i> ²	37,035	-
Other statutory expenditures	883	922
Spending of proceeds from disposal of surplus Crown assets	638	310
	453,104	395,711
TOTAL APPROPRIATIONS USED	2,998,765	2,846,943
Less: Non-tax revenue other than revenue netted against expenditures (Note 5)	80,451	65,611
Prior year expenditure charged to current year appropriation	0	9,900
	80,451	75,511
Add: Services provided without charge by other government departments (Note 10)	391,377	355,636
Net changes in future funding requirements (Note 7)		
Employee termination benefits	25,398	27,866
Vacation pay and compensatory leave	20,652	10,128
	437,427	393,630
NET COST OF OPERATIONS	3,355,741	3,165,062

¹ In accordance with the division of activities for financial reporting purposes outlined in Note 1, the ex gratia relief for heating expense payments, which were authorized through Vote 1-CCRA (Operating expenditures), are reported as an administered expenditure on the Statement of Operations – Administered Activities. The amount shown as available for use in subsequent years is restricted to such payments.

² Authority to respend these revenues pursuant to section 60 of the *Canada Customs and Revenue Agency Act* commenced in 2000-2001.

5. Non-tax revenue

The following table presents details of non-tax revenue as reported on the Statement of Operations:

	2001	2000
	(in thousands of dollars)	
Non-tax revenue credited to Vote 1 - CCRA (Operating expenditures)		
Fees for collecting Employment Insurance premiums	83,086	77,748
Fees for collecting Canada Pension Plan contributions	49,712	57,676
	132,798	135,424
Respendable revenues¹		
Administration fees – Provinces & Municipalities	24,247	–
Duty free shops	5,568	–
Refunds of previous years' expenditures	935	–
Services fees	3,385	–
Ruling fees	1,479	–
Other respendable revenues	1,661	–
	37,275	–
Other non-tax revenue		
Recovery of employee benefit costs for collecting activities	26,301	22,406
Administration fees – Provinces & Municipalities	–	20,652
Duty free shops	–	5,168
Refunds of previous years' expenditures	–	4,894
Services fees	–	2,975
Adjustment to accounts payable	10,117	2,271
Ruling fees	–	1,166
Lease and use of public property	669	644
Other non-tax revenue	6,089	5,435
	43,176	65,611
TOTAL NON-TAX REVENUE	213,249	201,035

¹ Authority to respend these revenues pursuant to section 60 of the *Canada Customs and Revenue Agency Act* commenced in 2000-2001

6. Accounts receivable

At year-end, accounts receivable resulting from transactions with outside parties are as follows:

	2001	2000
	(in thousands of dollars)	
Accounts receivable – From other government departments	20,026	7,101
Accounts receivable – External to the Government	1,016	1,349
	21,042	8,450
Less: allowance for doubtful accounts	45	0
	20,997	8,450

Revenues associated with these accounts receivable are reflected in the Statement of Operations.

7. Liabilities

At year-end, the Agency has the following liabilities:

	2001	2000
	(in thousands of dollars)	
Employee termination benefits	347,522	322,124
Accounts payable – External to the Government	121,922	120,489
Vacation pay and compensatory leave	116,000	95,348
Accounts payable – To other government departments	70,483	75,586
Accrued employee salary and benefits	41,404	71,916
Capital leases	4,997	0
Accounts payable – To employees	3,139	2,693
Other liabilities	120	270
	705,587	688,426

Expenditures associated with these liabilities are reflected in the Statement of Operations.

8. Capital assets purchases

Accounting principles of the Government of Canada for fiscal years included in these financial statements do not require the capitalization of assets. Capital expenditures have been charged to operating and administrative expenditures at the time of acquisition or construction. For information purposes, this table presents those acquisitions during the year that could otherwise have been capitalized under a full accrual accounting principle for tangible capital assets. For the purpose of this table, we have recorded only assets with an original individual cost of \$10,000 or more.

	2001	2000
	(in thousands of dollars)	
Information technology equipment	17,929	4,622
Buildings under construction	6,542	12,438
Motor vehicles	1,675	2,060
Equipment	1,629	2,927
Capital leases (Information technology)	922	0
Buildings	544	34
Land	15	35
	29,256	22,116

9. Board of Management

Pursuant to the *Canada Customs and Revenue Agency Act*, a Board of Management is appointed to oversee the organization and administration of the Agency and the management of its resources, services, property, personnel and contracts. Expenditures relating to the Board's activities during the year total \$1,045 thousand (2000 – \$846 thousand) and are included in the Statement of Operations. This includes payments to the Board of Management, secretariat staff personnel expenditures, travel and other expenditures.

10. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises.

During the year, the Agency received accommodation and professional services without charge from other government departments and agencies. Employer health insurance plan contributions and worker's compensation benefits were also provided by other government departments without charge. Significant services provided without charge have been recorded in the Agency's statement of operations as follows:

	2001	2000
	(in thousands of dollars)	
Accommodation	214,326	196,317
Employer's contribution to the health insurance plan	112,842	105,415
Legal services	57,907	46,886
Audit services	3,270	4,358
Worker's compensation benefits	3,032	2,660
	391,377	355,636

Certain payables and receivables outstanding at year end were with these related parties:

Accounts receivable – From other government departments	20,026	7,101
Accounts payable – To other government departments	70,483	75,586

11. Contingent liabilities

In connection with its operations, the Canada Customs and Revenue Agency is a defendant in certain cases of litigation. It is estimated that as at March 31, 2001, there are \$4 million (\$12 million as at March 31, 2000) in claims and pending and threatened litigation. A contingent liability is a potential liability which may become a liability when one or more future events occur or fail to occur. A contingent liability is recorded as an actual liability when it becomes likely that a payment will be made and the amount of that payment may be reasonably and reliably estimated.





Statement of Operations – Administered Activities





AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Board of Management of the Canada Customs and Revenue Agency
and the Minister of National Revenue

I have audited the Statement of Operations – Administered Activities of the Canada Customs and Revenue Agency for the year ended March 31, 2001. This financial statement is the responsibility of the Agency's management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 my opinion, this financial statement presents fairly, in all material respects, the results of the Agency's operations of its Administered Activities for the year ended March 31, 2001 in accordance with the accounting policies set out in Note 2 to the financial statement.

A handwritten signature in cursive script that reads "Sheila Fraser".

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
July 23, 2001



Statement of Operations – Administered Activities

for the year ended March 31
(in thousands of dollars)

	2001	2000
Administered Revenues		
Tax Revenues (Note 3)		
Income Tax		
Personal	163,763,361	154,151,820
Transfers to others (Note 4)	(75,235,713)	(69,327,944)
Total Personal	88,527,648	84,823,876
Corporation	30,947,905	25,321,506
Transfers to others (Note 4)	(2,736,354)	(2,131,298)
Total Corporation	28,211,551	23,190,208
Non-resident and other	4,312,234	3,499,284
Total Non-resident and Other	4,312,234	3,499,284
Total Income Tax	121,051,433	111,513,368
GST and HST, Excise and Customs		
Goods and Services Tax (GST)/		
Harmonized Sales Tax (HST)(Note 5)	29,641,521	27,376,527
Transfers to others (Note 4)	(1,818,627)	(1,799,367)
Total GST and HST	27,822,894	25,577,160
Excise energy taxes	4,805,284	4,757,133
Other excise duties and taxes	3,514,040	3,214,211
Transfers to others (Note 4)	0	(2,859)
Total Excise Duties and Taxes	8,319,324	7,968,485
Customs import duties	2,807,317	2,105,117
Total Customs Import Duties	2,807,317	2,105,117
Total GST and HST, Excise and Customs	38,949,535	35,650,762
Other		
Nova Scotia Worker's Compensation	156,660	29,746
Provincial sales, tobacco and alcohol taxes	38,470	26,826
Transfers to others (Note 4)	(195,130)	(56,572)
Total Other	0	0
Total Tax Revenues	160,000,968	147,164,130

Administered Revenues (Continued)

	2001	2000
Non-Tax Revenues (Note 6)		
Penalties	91,931	85,128
Interest	81,841	61,300
Other	26,327	14,828
Total Non-Tax Revenues	200,099	161,256
Total revenues administered on behalf of the Government of Canada	160,201,067	147,325,386

Administered Expenditures

Federal expenditures

Child tax benefits	6,810,968	5,999,542
GST credit	2,901,708	2,846,993
Relief for Heating Expense payments	1,459,267	-
Children's special allowance	102,689	88,227
Interest	79,392	76,682
Old Age Security benefits repaid	(588,467)	(553,575)
Total federal expenditures	10,765,557	8,457,869

Other expenditures

Provincial/Territorial Family Benefit Programs (Note 7)	1,769,872	510,592
Recoveries from Provinces/Territories	(1,769,872)	(510,592)
Total Other expenditures	0	0

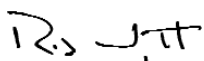
Total expenditures administered on behalf of the Government of Canada

10,765,557	8,457,869
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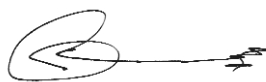
Contingent significant refunds (Note 8)

The accompanying notes are an integral part of this statement.

Approved by:



Rob Wright
Commissioner



Michael L. Turcotte
Chair, Board of Management

Notes to the Statement of Operations – Administered Activities

1. Authority and purpose

The Canada Customs and Revenue Agency (the “Agency”) was established effective November 1, 1999, under the *Canada Customs and Revenue Agency Act*. The Agency was established to support the evolution of tax administration and customs services in Canada.

The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue. The Agency’s expenditures are funded by the Government of Canada through appropriations.

The Agency’s mandate is to provide support, advice and services when:

- (a) supporting the administration and enforcement of the program legislation;
- (b) implementing agreements between the Government of Canada or the Agency and the government of a province or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the Agency and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and aboriginal governments to administer a tax.

In delivering its mandate, the Agency:

- collects revenues and administers tax laws for the federal government and for certain provinces and territories and others, including First Nations;
- provides border services and administers legislation governing international trade and travel; and
- delivers certain social and economic benefit programs to Canadians, through the tax system.

For financial reporting purposes, the activities of the Agency have been divided into two Statements of Operations: Administered Activities and Agency Activities. This Statement of Operations – Administered Activities has been divided into two components: Administered revenues and Administered expenditures. It includes those revenues and expenditures which are controlled by someone other than the Agency, such as the federal government, a province or territory, or another group or organization, and managed by the Agency on their behalf. The separate Statement of Operations – Agency Activities includes those operational revenues and expenditures which are controlled by the Agency and utilized in running the organization. The purpose of the distinction between Agency and Administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the Agency in achieving its mandate.

The Agency administers, on behalf of others, income taxes and sales taxes, Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, as well as amounts collected for other groups or organizations. The Agency is responsible for the administration and enforcement of the following acts and certain other acts for which the Minister of National Revenue has a mandated role: *Canada Customs and Revenue Agency Act*, *Children’s Special Allowances Act*, *Customs Act*, *Customs Tariff*, *Department of National Revenue Act*, *Excise Act*, *Excise Tax Act* (includes Goods and Services Tax (GST)/Harmonized Sales Tax (HST)), *Income Tax Act*, and others.

The Minister of National Revenue is responsible for the Agency and remains accountable to Parliament for the administration and the enforcement of the various tax and customs programs' legislation.

2. Significant accounting policies

As required by section 88(2) (a) of the *Canada Customs and Revenue Agency Act*, the Statement of Operations – Administered Activities has been prepared in accordance with accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The purpose of these financial statements is to present the tax and tax-related revenues and expenditures that the Agency administered on behalf of the federal government, provincial/territorial governments and other organizations. The most significant accounting policies are as follows:

(a) Tax revenue recognition

Tax revenues are generally reported in the period in which they are received. Tax revenues are reported net of refunds. Transfers to others are generally recorded on a cash basis. Refunds of tax revenues are generally allocated to the year in which the processing cycle for the assessment of the related tax return has been started. With the implementation of a new corporate tax processing system during 2000-2001, corporate tax refunds are now allocated to the year in which the assessment of the return is normally processed. Cases of tax refunds that are significant and that have been appealed to the Federal Court of Canada or to the Supreme Court of Canada are accrued when a court decision in favour of the taxpayer is rendered and the Crown has taken a decision not to pursue further.

(b) Non-tax revenue recognition

Non-tax revenues on the Statement of Operations – Administered Activities are generally reported in the period in which they are received. Penalties include amounts collected on late payment of GST and excise taxes and duties. Income tax interest and penalties are recorded as tax revenue.

(c) Expenditures

The Goods and Services Tax (GST) quarterly tax credits and payments under the Child Tax Benefit Program, the Children's Special Allowance and the Relief for Heating Expense payments are charged in the period to which they relate. OAS benefits repaid are recognized as tax returns are assessed. Provincial/Territorial benefit programs expenditures and recoveries are recognized on a cash basis.

Beginning with the 2001-2002 fiscal year, the Government has changed its accounting policies to a form of full accrual accounting. Concurrently, the Agency is also implementing these new policies and will prepare a full set of financial statements pertaining to Administered Activities, i.e. Statement of Administered Assets and Liabilities, Statement of Administered Revenues, Statement of Administered Expenses and a Statement of Cash Flows beginning with the fiscal year ending March 31, 2002.

3. Tax revenues

CCRA, in the normal course of operations, collects and then refunds certain amounts to taxpayers. The following table represents details of gross cash receipts and refunds reported in the Statement of Operations – Administered Activities:

	2001		2000	
	Gross Cash Receipts	Refunds	Net	Net
(in thousands of dollars)				
Income Tax				
Personal	180,961,433	17,198,072	163,763,361	154,151,820
Corporation	37,967,576	7,019,671	30,947,905	25,321,506
Non-resident and Other	4,499,520	187,286	4,312,234	3,499,284
Total income tax	223,428,529	24,405,029	199,023,500	182,972,610
GST and HST, Excise and Customs				
Goods and Services Tax(GST)/				
Harmonized Sales Tax (HST)	60,814,436	31,172,915	29,641,521	27,376,527
Excise energy taxes	4,810,037	4,753	4,805,284	4,757,133
Other excise duties and taxes	3,529,457	15,417	3,514,040	3,214,211
Customs import duties	3,005,774	198,457	2,807,317	2,105,117
Total GST and HST, Excise and Customs	72,159,704	31,391,542	40,768,162	37,452,988
Other				
Nova Scotia Worker's Compensation	156,660	0	156,660	29,746
Provincial sales, tobacco and alcohol taxes	38,470	0	38,470	26,826
Total other	195,130	0	195,130	56,572
Tax revenues, before transfers	295,783,363	55,796,571	239,986,792	220,482,170

4. Transfers/Revenues collected on behalf of others

Transfers are made by CCRA to others for whom CCRA administers taxes. The transfers are either made directly to the party on whose behalf CCRA collects the taxes, such as to Human Resources Development Canada for the Canada Pension Plan, the Employment Insurance Account, and the Employment Insurance benefits repaid, or to a liability account of the government from which the federal Department of Finance makes transfers to the party for whom the tax is administered. Transfers to the provinces/territories and First Nations are handled in this latter manner.

Transfers made in any one year typically are comprised of two components:

- 1) transfers relating to a current time period such as a tax year. These amounts are generally determined using best estimates, and
- 2) a final adjustment for a prior time period. This adjustment to total tax revenues brings previously estimated and recorded transfers for the prior time period into agreement with actual information, such as assessed amounts.

Any differences between actual amounts owing to others for whom CCRA administers taxes and best estimates are only known in subsequent periods when actual amounts become known. These differences are reflected in the financial statement in the year they are determined.

The following table presents details of transfers reported on the Statement of Operations – Administered Activities:

	2001	2000
	(in thousands of dollars)	
Personal		
Provincial/territorial/First Nations income taxes	34,880,720	33,473,467
Canada Pension Plan contributions	21,161,664	16,871,726
Employment Insurance premiums	18,987,354	18,838,140
Employment Insurance benefits repaid	205,975	144,611
Total Personal transfers	75,235,713	69,327,944
Corporation		
Provincial/territorial income taxes	2,736,354	2,131,298
Total Corporation transfers	2,736,354	2,131,298
GST and HST		
Harmonized Sales Tax	1,817,062	1,798,099
First Nations Sales Tax	1,565	1,268
Total GST/HST transfers	1,818,627	1,799,367
Excise		
Air Transportation Tax	0	2,859
Total Excise transfers	0	2,859
Other		
Nova Scotia Worker's Compensation	156,660	29,746
Provincial sales, tobacco and alcohol taxes	38,470	26,826
Total Other transfers	195,130	56,572
Total transfers	79,985,824	73,318,040

5. Goods and services tax/Harmonized sales tax

GST collected on the sale of goods and services by most other federal government organizations is not included in this statement. As federal government organizations change their accounting systems over the next year, these amounts will be administered by the Agency and included in this statement.

GST collected on goods and services in the province of Quebec on behalf of the federal government is transferred by the Ministère du Revenu du Québec to the Agency and is thus included in this statement.

Amounts reported include Harmonized sales tax (HST) and First Nations sales tax where applicable. GST and HST received are reported net of offsetting refunds and rebates claimed by registrants. Transfers of HST to provinces and sales tax to the First Nations are calculated in accordance with applicable Agreements.

6. Non-tax revenues

The following table presents details of administered non-tax revenues:

	2001	2000
	(in thousands of dollars)	
Non-tax Revenue		
Penalties – GST and excise	91,931	85,128
Interest – GST and excise	81,841	61,300
Other		
Seizures	11,331	8,974
Fines and forfeitures	14,931	4,676
Sale of unclaimed goods, etc.	65	1,178
	26,327	14,828
Total administered non-tax revenues	200,099	161,256



7. Provincial/Territorial benefit programs

Provincial/territorial benefit programs include the following: Newfoundland and Labrador Harmonized Sales Tax Credit, Newfoundland and Labrador Senior Supplement, Newfoundland and Labrador Child Benefit, Nova Scotia Child Benefit, New Brunswick Child Benefit, Saskatchewan Child Benefit, Saskatchewan Sales Tax Credit, Alberta Family Employment Tax Credit, Alberta Energy Tax Refund, British Columbia Family Bonus, British Columbia Earned Income Benefit, British Columbia Energy Rebate, Yukon Child Benefit, Northwest Territories Child Benefit, Ontario Taxpayers Dividend and the Nunavut Child Benefit. These amounts represent payments made by the Agency to individual taxpayers on behalf of the applicable province/territory.

8. Contingent significant refunds

Contingent significant refunds represent potential amounts that may become actual refunds when one or more future events occur or fail to occur. If the future event is likely to occur or fail to occur and a reasonable estimate of the amount to be refunded can be made, the amount is accrued.

Claims for significant tax refunds are disclosed until such time as a decision is made and all appeals to the Federal Court of Canada or the Supreme Court of Canada have been exhausted or are not expected to be pursued. After this time, the refund is either accrued or no longer disclosed, as appropriate. There are \$1,123 million (\$802 million as at March 31, 2000) in claims or litigation relating to tax refunds that are significant and were under appeal to the Federal Court of Canada or the Supreme Court of Canada at March 31, 2001.

9. Accounts receivable

Accounts receivable for tax revenues are unaudited and are reported on a memorandum basis in the *Public Accounts of Canada*. Details of the unaudited balances are included in Section 4 of Volume II (Part II) of the *Public Accounts of Canada*.

10. Deposit and trust accounts

The Agency receives refundable deposits to ensure compliance with various regulations. Deposits held at March 31, are as follows:

	2001	2000
	(in thousands of dollars)	
Guarantee deposits		
Balance, beginning of year	12,178	11,398
Add: receipts	5,285	2,179
Less: disbursements	1,049	1,399
Balance, end of year	16,414	12,178
Temporary deposits received from importers		
Balance, beginning of year	700	745
Net transactions during the year	(144)	(45)
Balance, end of year	556	700

The guarantee deposits account was established to record cash and securities required to guarantee payment of customs duties and excise taxes on imported goods, and of sales and excise taxes payable by licensees pursuant to the *Customs Act*, and the *Excise Tax Act*.

The temporary deposits received from importers account was established to record temporary security deposits received from importers to ensure compliance with various customs and excise regulations regarding temporary entry of goods.

11. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Unaudited

Supplementary Financial Information







Management Discussion and Analysis – Agency Activities

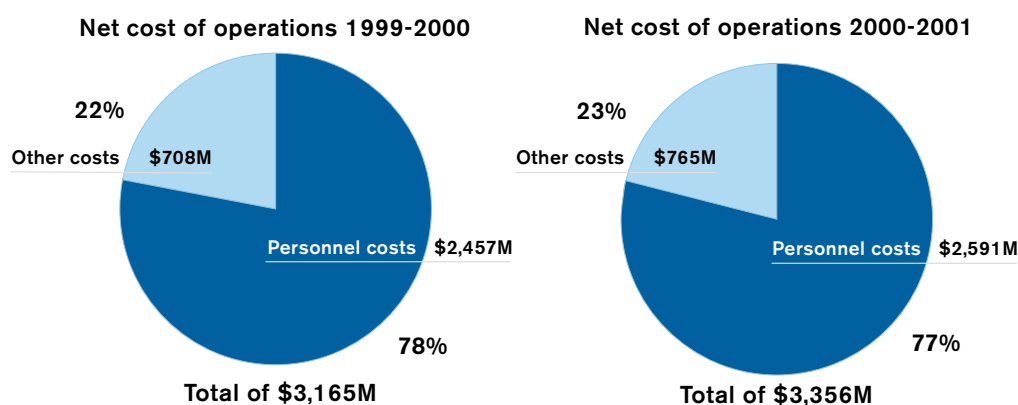
Agency management

The Canada Customs and Revenue Agency (CCRA) is organized and managed along five business lines. Within the business lines, the functional programs (e.g., Customs, Assessment and Collections, Compliance Programs, etc.) provide a further level of disaggregation whereby variances can be identified and explanations constructed. The information related to the functional programs and the results achieved are presented in the *Annex: Supplementary Performance Information by Business Line*. The larger part of the expenditure variances between fiscal years relates to the new authorities received by the CCRA in 2000-2001 as described in the Annex, such as submissions to Treasury Board for the Customs Action Plan, the February 2000 Federal Budget Omnibus Submission, and the October 2000 Economic Statement Submission.

The CCRA also has a number of key business drivers that impacted its business during 2000-2001 and account in part for increased expenditures in 2000-2001, such as a rise in the number of travellers entering Canada (3.8%), the individual tax-filing population (1.3%), and corporate tax filers (3.7%). In addition, collective agreements were signed and pay equity settlements were reached, leading to increased expenditures.

Net cost of operations

The CCRA net cost of operations is made up of approximately 77% personnel costs (salaries, other allowances, and benefits) and nearly 23% other costs. Much of the latter are linked to personnel costs (e.g., travel for auditors, personal computers, stationary, supplies, etc.) and therefore personnel costs are the primary cost drivers for the CCRA, as illustrated below:



Personnel costs (salaries, other allowances, and benefits)

The CCRA's personnel costs (salaries, other allowances, and benefits) increased by some 5% or \$134 million over 1999-2000. This increase relates mainly to the following: collective agreements funding received from Treasury Board including pay equity settlements for the personnel administration group and PSAC; new authorities approved by Treasury Board described earlier and related to the February 2000 Federal Budget; the October 2000 Economic Statement; and customs modernization.

Of the \$134 million increase, other allowances and benefits account for some \$55 million, and are directly linked to the increase in the salaries noted above (for example: employee benefit plans, \$20 million; overtime, \$16 million; health insurance, \$7 million; and vacation and compensation leave, \$10 million).

Other costs

Other costs increased by 8% or some \$56 million. These expenses all have a support relationship to the salary increases noted above. Major components of this increase relate to: transportation and communication, \$14 million; accommodation, \$18 million; professional and special services, \$15 million; transfer payments, \$24 million; purchase and repair, \$23 million; decreases in the cost of other services, \$13 million; land and building, \$13 million; and offset by increases in non-tax revenue, \$12 million.



Management Discussion and Analysis – Administered Activities

The Statement of Operations – Administered Activities reflects the total revenues and expenditures administered by the CCRA on behalf of the Government of Canada. As per Note 3 of the financial statements, the CCRA collects and then refunds certain amounts to taxpayers. The amounts for which analysis is provided in the following narrative are net of refunds, as reflected in the Statement of Operations.

Gross revenues (including non-tax revenue and net of refunds) administered on behalf of the Government of Canada amounted to \$240.2 billion in 2000-2001, an increase of \$19.6 billion, or 8.9%, over 1999-2000.

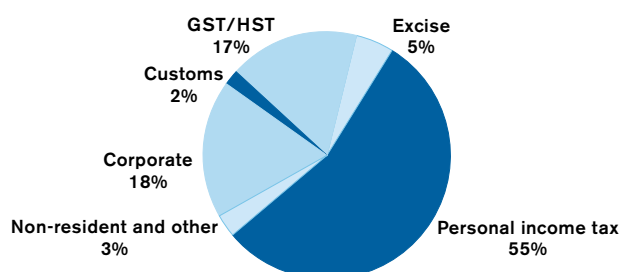
In addition, transfers are made either directly to the party on whose behalf the CCRA collects the taxes, such as Human Resources Development Canada for the Canada Pension Plan and Employment Insurance Account, or to a liability account from which the federal Department of Finance makes transfers to the party for whom the tax is administered. Transfers to the provinces/territories and First Nations are handled in the latter manner.

Transfers increased 9.1% to \$80.0 billion in 2000-2001.

The resulting total revenue administered on behalf of the Government of Canada amounted to \$160.2 billion, which was \$12.9 billion, or 8.7%, higher than in 1999-2000.

Details on the major components of revenues and expenditures are presented in the sections that follow.

Composition of revenues administered on behalf of the Government of Canada for 2000-2001



Personal income tax

Personal income tax receipts include source deductions for federal and provincial personal income tax, payments on filing, installments and collection of arrears, Canada Pension Plan contributions, and Employment Insurance premiums. These receipts were higher in 2000-2001 by \$9.6 billion, or 6.2%.

Growth in gross receipts would have been stronger in 2000-2001 if it were not for the tax relief measures announced in the February 2000 Budget and October 2000 *Economic Statement* and *Budget Update*, which had a dampening effect on personal income tax revenue growth.

Within personal income tax:

- Source deductions rose by 3.2%, or \$3.4 billion, and are consistent with Statistics Canada data, which indicated that full-time and part-time labour employment increased by 2.6%, wage settlements were up by 2.2%, and overall labour income rose by 7.2% in 2000.
- Payments on filing increased by \$451 million, or 5.1%, in 2000-2001. The number of returns assessed where tax monies were owed to the government increased by 4.5%.
- Installment payments increased by \$914 million, or 6.9%, in 2000-2001 as the number of installment remitters increased 4.9% over last year and the average amount to be paid was up \$10 per client.
- CPP contributions were up \$4.3 billion due to higher employment, but predominantly due to an increase in the pension ceiling from \$37,400 in 1999 to \$37,600 in 2000 and in the employer-employee contribution rate from 3.5% to 3.9% over the same period.
- EI premiums for 2000-2001 increased just 0.8% as the effects of higher employment and average wages were largely offset by a reduction in the employee premium rate from 2.6% to 2.4% per \$100 of insurable earnings beginning January 2000.

Corporate, non-resident, and other

Receipts for corporate taxes were \$5.6 billion, or 22.2%, higher than in 1999-2000. Statistics Canada data indicated that 2000 corporate profits increased 21.2%.

Non-resident and other taxes increased \$0.8 billion, or 23.2%, primarily because of the improved economy in 2000-2001 over 1999-2000.



GST (including GST on imports) and HST

GST/HST receipts for 2000-2001 were \$2.3 billion, or 8.3%, higher than for the previous year. Statistics Canada data indicated that retail sales in 2000 were 6.3% higher than in 1999, while importations increased by 11.1%. Misallocations in 1999-2000 between customs duty and GST on imports appear to have distorted variances.

Customs duties

Customs receipts increased \$0.7 billion, or 33.4 %, in 2000-2001 over 1999-2000. Statistics Canada data indicated that 2000 importations were 11.1% higher than in 1999. Misallocations in 1999-2000 between customs duty and GST on imports appear to have distorted variances.

Excise duties and taxes

Excise duties and taxes increased a nominal 4.4%, or \$0.3 billion, from 1999-2000 to 2000-2001.

Other

The Nova Scotia Worker's Compensation program only became effective in the fourth quarter of 1999-2000.

Non-tax revenues

Non-tax revenue increased \$38 million, or 24%. Most of this can be attributed to increased penalties and interest on collection activity. The remainder of the increase is attributable to a number of miscellaneous items.

Federal expenditures

In total, federal expenditures for administered activities increased by \$2.3 billion, or 27.3%. More than half of this increase is due to a Government program to provide relief for higher heating expenses by one-time payments to individuals who qualified for the GST credit, based on their 1999 tax returns. The remainder is primarily due to an increase in the amount of the Canada Child Tax Benefit paid to taxpayers, which became effective in July 2000.





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