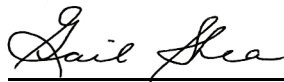


Canada Revenue Agency

2011-12

Departmental Performance Report



The Honourable Gail Shea, P.C., MP
Minister of National Revenue

The contents of this performance report are taken from the Canada Revenue Agency's *Annual Report to Parliament – 2011-2012*. The Minister of National Revenue tables the CRA's Annual Report in Parliament pursuant to the requirements of the *Canada Revenue Agency Act*. The Performance Report and the CRA's Annual Report contain comprehensive performance information and the opinion of the Auditor General of Canada on the CRA's financial statements. For more information on the CRA's Annual Report, please visit www.cra.gc.ca/annualreport, or write to: Director, Planning and Annual Reporting Division, Corporate Planning, Governance and Measurement Directorate, Strategy and Integration Branch, Canada Revenue Agency, Connaught Building, 555 MacKenzie Avenue, Ottawa ON K1A 0L5, Canada.

Table of Contents

Minister’s message	5
Message from the Commissioner and Chief Executive Officer	6
Section I: Organizational overview	7
Raison d’être.....	7
Responsibilities.....	7
Strategic outcomes and program activity architecture.....	8
Organizational priorities	9
Risk analysis	10
Summary of performance	11
Expenditure profile	14
Estimates by vote.....	15
Section II: Analysis of program activities by strategic outcome	16
Program activity 1: Taxpayers and business assistance	16
Program activity 2: Assessment of returns and payment processing	20
Program activity 3: Accounts receivable and returns compliance.....	25
Program activity 4: Reporting compliance.....	28
Program activity 5: Appeals	33
Program activity 6: Benefit programs.....	37
Program activity 7: Internal services	40
Changes to government structure	45
Economic Action Plan initiatives	45
Section III: Supplementary information	46
Financial performance information – parliamentary appropriations	47
Financial highlights	49
List of supplementary information tables.....	53
Section IV: Other items of interest	54

Minister's message

The Canada Revenue Agency (CRA) makes a difference in the daily lives of all Canadians. We administer an equitable and responsive tax system that forms the foundation for long-term prosperity and responsible citizenship in Canada.

Our government is committed to keeping taxes low, investing in jobs and growth, and controlling government spending. In 2011-2012, the CRA continued to implement tax relief measures designed to help individuals and families, such as the children's arts tax credit and the volunteer firefighter tax credit. For businesses, we extended the hiring credit for small business, and improved many of the online services we provide so that small businesses can be free to handle their tax affairs securely, quickly, and according to their own schedule.

Improvements to the CRA's online services during 2011-2012 include a new enquiries service available through My Business Account, where businesses can ask their questions directly to the CRA and we respond to them online and in writing. We also launched the business landing page on our Web site, a one-stop shop for CRA information and services important to businesses—all as part of our effort to cut red tape for small businesses so they can focus on what they do best: creating jobs and economic growth in communities across Canada.



“Canadian businesses are a vital part of our local, provincial, and national economies, and the Government of Canada is committed to supporting them.”

—Gail Shea

Red tape is costly for all Canadians, hinders economic productivity, and gets in the way of compliance. The CRA has worked closely with the Red Tape Reduction Commission and other federal government organizations to respond to the concerns and suggestions of small businesses. We will continue to consult with businesses in Canada, their associations, and our federal government partners over the coming months as we implement the Government's Red Tape Reduction Action Plan.

The Government of Canada's efforts to reduce the tax compliance burden are having a positive impact. In PricewaterhouseCoopers' 2012 international study, *Paying Taxes 2012: The Global Picture*, Canada ranks higher than any other G-7 country based on the overall ease of complying with tax obligations. PricewaterhouseCoopers also identified Canada as a potential model for other countries' tax systems from the perspective of a business filing and paying taxes.

A focus on performance measurement and the efficient use of resources to identify non-compliance and collect taxes is a solid foundation on which the CRA will continue to build. I welcome the significant progress achieved in the past year to ensure the effectiveness, fairness, and integrity of our tax system.

As Minister of National Revenue, I am pleased to present the *Departmental Performance Report 2011-2012* for tabling.

A handwritten signature in cursive script that reads "Gail Shea".

The Honourable Gail Shea, P.C., MP
Minister of National Revenue

Message from the Commissioner and Chief Executive Officer

Each year the Canada Revenue Agency (CRA) collects taxes and delivers benefits and credits on behalf of federal, provincial, and territorial governments, interacting with more individuals and businesses than any other government department or agency. Our work helps Canadians achieve and sustain economic and social well-being. We are committed to delivering high-quality, efficient, and reliable services and to protecting the integrity of our tax system.

2011-2012 was far from a ‘business as usual’ year for the CRA. We launched Vision 2020, our long term strategic direction to transform the CRA into a leaner and more productive organization, while maintaining top quality, responsive, and transparent services to citizens and to better position the CRA to meet the compliance challenges of a rapidly changing global environment. We also responded to the Red Tape Reduction Commission’s mandate to identify new measures to reduce the overall administrative burden on small businesses.

To meet evolving fiscal and business needs, we have been careful to balance our investment in long term objectives with a focus on our core business and day to day operations. Our goal is to make it easier for taxpayers who want to comply, and more difficult for those who try to avoid their obligations. As an organization that values integrity, we also want to provide a transparent and fair response to those who disagree with our decisions.



“The CRA has always been committed to integrity. Living by the Agency’s values and cultivating trust are more important than ever in this highly connected world.”

—Linda Lizotte-MacPherson

We responded to what Canadians told us: they want their dealings with the CRA to be easy and efficient. In response, in 2011-2012, we made our Web site easier to navigate and understand, with a focus on plain language. We increased the number of service and communication options on My Business Account and My Account pages to respond to feedback from taxpayers, businesses, and their representatives, while also protecting taxpayer information and the integrity of our systems. Additionally, we

completed the first stage in consolidating our information technology services into the newly formed Shared Services Canada.

At the same time, we are very much aware of how important it is to Canadians that everyone pay their fair share of taxes and receive accurate benefits and credits. In 2011-2012, we continued to address the small but persistent non-compliant population. We strengthened our risk-based approach to compliance and further developed tools to help us recognize and deal with non-compliance, both here at home and internationally. As a result of our actions, we recovered over \$40 billion in tax debt over the last year.

Only a small proportion of taxpayers disagree with our service levels or our decisions, but we place the highest priority on responding fairly and accurately to these disputes. The enhancements we have put in place to centralize the distribution of disputes continued to produce improvements in redress service delivery during 2011-2012.

In submitting this report to the Minister for tabling in Parliament, I would like to extend my sincere thanks to the staff of the CRA for their dedication, expertise, and professionalism. Our employees are fundamental to the CRA’s ability to continue delivering excellent results that matter to Canadians.

A handwritten signature in black ink that reads "L. Lizotte-MacPherson". The signature is written in a cursive, flowing style.

Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer
Canada Revenue Agency

SECTION I: ORGANIZATIONAL OVERVIEW

Raison d'être

The Canada Revenue Agency (CRA) is responsible for administering, assessing, and collecting hundreds of billions of dollars in taxes annually. The tax revenue it collects is used by federal, provincial, territorial, and First Nations governments to fund programs and services that contribute to the quality of life of Canadians.

No other public organization touches the lives of more Canadians on a daily basis. The CRA uses its federal infrastructure to deliver benefits, tax credits, and other services that support the economic and social well-being of Canadian families, children, and persons with disabilities.

The CRA contributes to three of the Government of Canada's outcome areas:

- a transparent, accountable, and responsive federal government;
- well-managed and efficient government operations; and
- income security and employment for Canadians.

Responsibilities

The CRA is mandated to administer tax, benefit, and other programs for the Government of Canada and provincial, territorial, and certain First Nations governments.

In carrying out its mandate the CRA strives to make sure that Canadians:

- pay their required share of taxes;
- receive their rightful share of entitlements; and
- are given an impartial and responsive review of contested decisions.

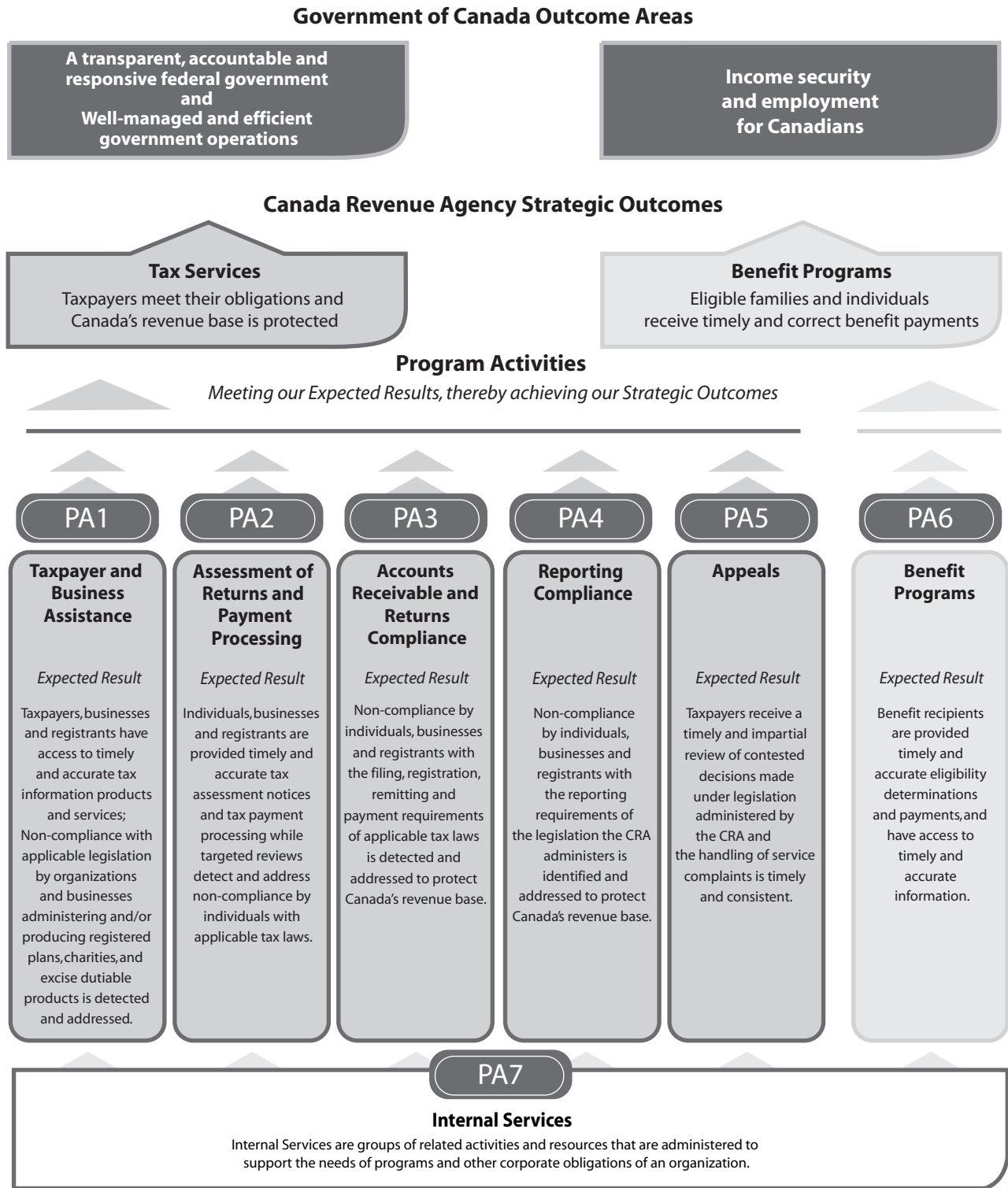
The following two strategic outcomes summarize the CRA's contribution to Canadian society.

- Taxpayers meet their obligations and Canada's revenue base is protected.
- Eligible families and individuals receive timely and correct benefit payments.

The achievement of these outcomes shows that we are fulfilling our mandate from Parliament.

In addition to the administration of income tax and benefit programs, the CRA now administers harmonized sales tax for five provinces. The CRA also verifies taxpayer income levels in support of a wide variety of federal, provincial, and territorial programs, ranging from student loans to health care initiatives. In addition, we provide other services, such as the Refund Set-Off Program, through which we aid other federal agencies and departments, as well as provincial and territorial governments, in the collection of debts that might otherwise become uncollectible.

Strategic outcomes and program activity architecture



Organizational priorities

Priority	Type ¹	Strategic outcome
Delivering benefits	Ongoing	Eligible families and individuals receive timely and correct benefit payments
Income security is essential to the economic and social well-being of Canadians, particularly in the current economic environment. The approximately \$21 billion in benefits and credits administered by the CRA provides vital assistance to millions of Canadians.		
<ul style="list-style-type: none"> • Providing information • Validating eligibility • Processing 		

Priority	Type ¹	Strategic outcome
Assisting taxpayers	Ongoing	Taxpayers meet their obligations and Canada's revenue base is protected
Our objective is to make sure that Canadians have access to the information they need to voluntarily comply with Canada's tax laws as well as impartial and timely review of contested decisions. We work to build and maintain the trust and confidence of Canadians and our stakeholders through a range of activities and by treating their personal information confidentially. Quality service and information are critical to the success of a tax system that relies on voluntary self-assessment. We provide taxpayers with a wide array of services, helpful and accurate information, and effective tools to facilitate their voluntary compliance with tax legislation.		
<ul style="list-style-type: none"> • Providing information • Taxpayer interactions • Processing services • Influencing compliance attitudes • Voluntary disclosures 		

Priority	Type ¹	Strategic outcome
Addressing non-compliance	Ongoing	Taxpayers meet their obligations and Canada's revenue base is protected
Although instances of significant non-compliance do not happen often, they have a significant fiscal impact and erode the integrity of the tax and benefit system. We must continue to apply innovative strategies to remove the remaining opportunities for non-compliance and to detect non-compliance when it occurs.		
<ul style="list-style-type: none"> • Early intervention • Complex intervention • Enforcement • Payment of tax debt 		

Priority	Type ¹	Strategic outcome
Recourse (if you disagree)	Ongoing	Taxpayers meet their obligations and Canada's revenue base is protected
Taxpayers have multiple ways to communicate with the CRA to resolve tax and service related issues.		
<ul style="list-style-type: none"> • Services • Disputes • Taxpayer relief 		

Priority	Type ¹	Strategic outcomes
Our corporate foundation	Ongoing	Taxpayers meet their obligations and Canada's revenue base is protected <i>and</i> Eligible families and individuals receive timely and correct benefit payments
We must make sure that we have in place the modern and innovative management practices and sound infrastructure necessary to maintain the sustainability of the tax, benefit, and related services we deliver for governments across Canada.		
<ul style="list-style-type: none"> • Improving our human resources capacity • Information technology responsiveness and sustainability • Accountability and operational efficiency • Improving security • Employ enterprise risk management consistently and systematically • Contribution to the federal sustainable development strategy • Management oversight 		

¹ Type is defined as follows: **Previously committed to**—committed to in the first or second fiscal year before the subject year of the report; **Ongoing**—committed to at least three fiscal years before the subject year of the report; and **New**—newly committed to in the reporting year of the DPR.

Risk analysis

The CRA develops an annual Corporate Risk Profile (CRP) which provides an overview of the enterprise-level risks that could impact our ability to achieve our outcomes. Factoring in changes in our operating environment, these risks are identified, assessed, and when necessary, mitigating action plans are developed. Throughout the year, risks are monitored and reported on to ensure that action plans remain adequate and that course correction measures are implemented when needed.

Resulting from current and previous CRPs, we have developed and are actively monitoring the implementation of action plans for 18 of the CRA's 31 enterprise-level risks. These risks, and their related action plans, focus on five primary themes of the CRP.

Protecting the revenue base

We play a critical role in collecting the revenue base for government. We continue to target areas of non-compliance like the underground economy and aggressive tax planning. Engagement with key partners also continued to assist the CRA in its efforts to reduce non-compliance. This included work with Canadian and international partners through the Federal-Provincial-Territorial Underground Economy Working Group and the Organization for Economic Cooperation and Development to share intelligence and best practices to combat all areas of non-compliance. For information about additional actions related to protecting the revenue base, see the following parts of Section II: Assessment of Returns and Payment Processing (PA2), Accounts Receivables and Returns Compliance (PA3), Reporting Compliance (PA4), and Appeals (PA5).

Enablers: resources, systems, and processes

Strong support functions are critical to the successful delivery of our programs and services. We continue to focus on key enablers like human and financial resources, and information technology (IT). This year, to help address IT sustainability, we entered into a tri-lateral agreement with the Bank of Canada and Public Works and Government Services Canada to jointly acquire data centres services in the National Capital Region from the private sector. We also ensured a collaborative and well-managed transfer of resources and related internal service functions to Shared Services Canada. For information about additional actions undertaken to support our key enablers, see the following part of Section II: Internal Services (PA7).

The ability to move forward and evolve

We need an agile and capable workforce to respond to changes while steering the organization towards our long-term vision. This is key to ensuring that we are able to respond to change effectively and in a timely manner. To that end, we published an updated version of our Agency Strategic Workforce Plan, released a first set of Agency Learning Priorities, and advanced our Leadership Continuum, which ensures a more strategic and integrated approach to leadership learning and development. In addition to these efforts, we continued to enhance and expand a number of electronic services such as My Account and My Business Account. For information about additional actions undertaken to evolve the CRA, see the following part of Section II: Internal Services (PA7).

Capitalizing on information and knowledge

Corporate intelligence plays a pivotal role in informing decision-making throughout the organization. The CRA remains committed to capitalizing on the valuable knowledge, information, and data it holds. We continued to address the risk of not having appropriately managed information through the implementation of the Data Stewardship Program which will help to manage data as a corporate asset with a high level of quality and horizontally. We developed a draft Knowledge Management Framework that will promote retention and sharing of information. For information about actions undertaken to leverage these assets, see the following part of Section II: Internal Services (PA7).

Maintaining public trust

Trust is a key component in the relationship between taxpayers, benefit recipients, and our organization. Through actions like protecting the confidentiality of the personal and business information collected, and ensuring that taxpayers and benefit recipients are well informed, the CRA aims to maintain public confidence. To ensure the continued protection of information, this year we implemented the first phase of the Identity and Access Management initiative and continued our work to modernize our National Audit Trail System. In addition, we adapted and simplified our communication methods, including enhancements to our website and electronic services, to ensure clear and accessible information. For information about additional actions undertaken to maintaining public trust, see the following parts of Section II: Taxpayer and Business Assistance (PA1), Benefit Services (PA6) and Internal Services (PA7).

By integrating enterprise risk management into the corporate planning and reporting cycle, the CRA is able to ensure that risks are factored in plans and priorities and properly managed through action plans so that we can deliver on our mandate and achieve our strategic outcomes. A full mapping of our enterprise-level risks to our program activities can be found in Section IV: Other items of Interest.

Summary of performance

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ^{1,2}	Actual spending ¹
4,293,803	4,610,141	4,351,292

¹ Excludes amount deemed appropriated to Shared Services Canada.

² The Canada Revenue Agency's total authorities increased by \$13.4M from \$4,596.7M in 2010-2011 to \$4,610.1M in 2011-2012, a growth of 0.3%. This is attributable to a number of specific changes including incremental funding related to the implementation of the HST for Ontario and British Columbia and the affordable living tax credit for Nova Scotia, tax measures introduced in Budget 2011, the initiation of a project to upgrade the personal income tax processing system and adjustments to statutory authorities. However, these increases were offset by the sunset of funding for the implementation of tax measures introduced in prior years through the Federal Budget and the transfer to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual ¹	Difference
40,700	39,505	1,195

¹ Excludes amount deemed appropriated to Shared Services Canada.

Summary of performance tables

Progress toward strategic outcomes

Strategic outcomes: Taxpayers meet their obligations and Canada's revenue base is protected and Eligible families and individuals receive timely and correct benefit payments		
Performance indicators	Targets	2011-2012 performance
See individual program activity sections for performance indicators related to each activity	See individual program activity sections for targets related to their performance indicators	See individual program activity sections

Performance summary

Program activity (thousands of dollars)	2010-2011 Actual Spending	2011-2012				Alignment to Government of Canada outcomes
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
Strategic outcome: Taxpayers meet their obligations and Canada's revenue base is protected.						
Taxpayer and business assistance (PA1) ¹	551,883	408,032	408,190	535,703	530,542	A transparent, accountable, and responsive federal government
Assessment of returns and payment processing (PA2) ²	683,036	602,855	602,949	679,696	642,057	Well-managed and efficient government operations
Accounts receivable and returns compliance (PA3)	511,567	439,003	439,417	529,224	521,505	Well-managed and efficient government operations
Reporting compliance (PA4)	1,071,359	960,180	960,180	1,101,008	1,055,758	Well-managed and efficient government operations
Appeals (PA5)	164,065	131,792	131,819	182,837	175,064	A transparent, accountable, and responsive federal government
Strategic outcome: Eligible families and individuals receive timely and correct benefit payments.						
Benefit programs (PA6) ³	369,838	356,804	356,806	385,717	369,783	Income security and employment for Canadians
The following program activity supports all strategic outcomes within this organization.						
Internal services (PA7) ⁴	1,064,087	1,391,125	1,391,188	1,192,400	1,053,851	
Strategic outcome: Taxpayers and benefit recipients receive an independent and impartial review of their service-related complaints.						
Taxpayers' ombudsman (PA9)	2,730	3,255	3,255	3,557	2,731	A transparent, accountable, and responsive federal government
Total⁵	4,418,566	4,293,046	4,293,803	4,610,141	4,351,292	
Less: Non-Tax Revenues						
Respendable Revenue – Pursuant to Section 60 of the <i>Canada Revenue Act</i>	245,118	230,688	230,688	245,459	245,459	
Plus: Cost of Services received without charge	261,489	Not applicable	277,799	Not applicable	321,788	
Net cost of the CRA⁶	4,434,937	Not applicable	4,340,914	Not applicable	4,427,620	

Note: numbers may not add up due to rounding

- ¹ Includes the Softwood Lumber statutory disbursements (\$220.7 million in 2010-2011 and \$213.9 million in 2011-2012).
- ² Includes payments to the Agence du revenu du Québec for the administration of the Goods and Services Tax in that province (\$142.2 million in 2010-2011 and \$141.1 million in 2011-2012).
- ³ Includes a) Relief for Heating Expenses (program announced in 2000) (\$4.0 thousand in 2010-2011 and \$3.4 thousand in 2011-2012); b) Energy Costs Assistance Measures expenses (program announced in the fall of 2005) (\$4.7 thousand in 2010-2011 and \$1.5 thousand in 2011-2012); and c) Statutory Children's Special Allowance payments (\$222.4 million in 2010-2011 and \$223.5 million in 2011-2012).
- ⁴ For planning purposes, the budget for real property accommodations is shown in internal services; at year-end, the actuals are attributed to all other programs activities.
- ⁵ Total Authorities and Actual Spending exclude amount deemed appropriated to Shared Services Canada.
- ⁶ Following a modification to the Treasury Board Accounting Standard 1.2 issued in March 2011, Non-Respendable Non-Tax revenues, which were shown in previous reports, cannot be used to discharge the CRA's liabilities. As a result, Non-Respendable Non-Tax revenues are considered to be earned on behalf of the Government of Canada. Therefore, commencing in 2010-2011, the net cost of operations will not be reduced by the Non-Respendable Non-Tax revenues.

Contribution to the federal sustainable development strategy

The Federal Sustainable Development Strategy (FSDS) outlines the Government of Canada's commitment to improving the transparency of environmental decision-making by articulating its key strategic environmental goals and targets. The CRA ensures that consideration of these outcomes is an integral part of its decision-making processes.

The CRA contributes to Theme IV – Shrinking the Environmental Footprint – Beginning with Government as denoted by the visual identifier below.



Strategic environmental assessment

A Strategic Environmental Assessment is a systematic and comprehensive process for assessing the positive and negative environmental effects of a proposed policy, plan, or program and its alternatives.

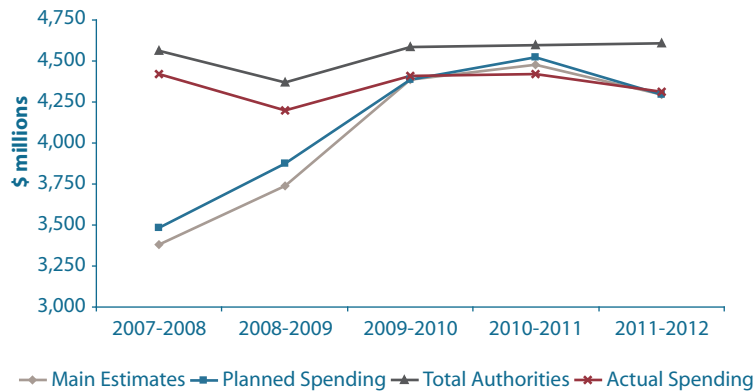
During 2011-12, the CRA considered the environmental effects of initiatives subject to the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals.

Preliminary assessments of CRA initiatives demonstrated that none required a Strategic Environmental Assessment. Consequently, no FSDS themes were affected, or public statements produced.

Additional information is available electronically as follows:

- directive on the Environmental Assessment of Policy, Plan and Program Proposals – please visit www.ceaa.gc.ca/default.asp?lang=En&n=B3186435-1
- complete details on the Federal Sustainable Development Strategy – please visit www.ec.gc.ca/dd-sd/default.asp?lang=En&n=C2844D2D-1
- information on the CRA Sustainable Development Strategy 2011-2014, Sustainable Development Performance Report, and activities that relate to the environmental, economic, and social pillars of sustainable development – please visit: www.cra-arc.gc.ca/gncy/sstnbl/menu-eng.html

Expenditure profile



	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
	(in millions of dollars)				
Main Estimates	3,379.9	3,737.4	4,388.0	4,476.4	4,293.0
Planned Spending	3,480.2	3,875.2	4,388.0	4,523.5	4,293.8
Total Authorities ¹	4,560.2	4,370.7	4,586.2	4,596.7	4,610.1
Actual Spending ¹	4,423.0	4,198.7	4,406.5	4,418.6	4,351.3

¹ Fiscal year 2011-2012 excludes amount deemed appropriated to Shared Services Canada.

For the period 2007-2008 to 2011-2012, total spending amounts include all Parliamentary appropriations and revenue sources: Main Estimates, Supplementary Estimates, funding associated with the increased personnel costs of collective agreements, maternity allowances and severance payments, as well as funding to implement Federal Budget initiatives and the CRA's carryforward adjustments from the prior year. It also includes spending of revenues received through the conduct of CRA's operations pursuant to Section 60 of the *Canada Revenue Agency Act*, Children's Special Allowance payments, payments to private collection agencies pursuant to Section 17.1 of the *Financial Administration Act* and disbursements to the provinces under the *Softwood Lumber Products Export Charge Act, 2006*.

Since 2007-2008 the Canada Revenue Agency's reference levels have changed primarily as a result of: collective agreements/contract awards; policy and operational initiatives arising from various Federal Budgets and Economic Statements; transfers from the Department of Public Works and Government Services Canada for accommodations and real property services; the commencement of responsibilities related to the administration of corporate tax in Ontario and the harmonization of sales tax in Ontario and British Columbia; and the creation of Shared Services Canada.

The CRA's Statutory Authorities have also fluctuated over the course of the 2007-2008 to 2011-2012 period as a result of: adjustments to the Children's Special Allowance payments for eligible children in the care of specialized institutions; adjustments to the rates for the contributions to employee benefit plans; increases to the spending of revenues received through the conduct of operations pursuant to Section 60 of the *Canada Revenue Agency Act*; the introduction from 2007-2008 to 2009-2010 of payments to private collection agencies pursuant to Section 17.1 of the *Financial Administration Act*; and finally, the introduction in 2006, and annual adjustments to, disbursements to the provinces under the *Softwood Lumber Products Export Charge Act, 2006*.

In 2011-2012, of the \$4,610.1 million total authority, CRA's actual spending totalled \$4,351.3 million resulting in \$258.8 million remaining unexpended at year-end. After deducting unused resources to be returned to the Treasury Board of Canada related to Government advertising campaigns and a frozen allotment for the Foreign Investment Entities and Non-Resident Trusts legislative initiative which has not yet received Royal Assent, the remaining \$248.3 million is available for use by the CRA in 2012-2013. This amount represents 5.4% of the total authority.

Authorities approved after Main Estimates

The following table details the additional authorities approved for the Canada Revenue Agency after the tabling in Parliament of Main Estimates and reconciles with the total authorities shown on page 14.

(in thousands of dollars)	
2011-2012 Main Estimates	4,293,046
Adjustments to contributions to employee benefit plans	757
Planned Spending (as reported in the 2011-2012 Report on Plans and Priorities)	4,293,803
Carryforward from 2010-2011	178,007
Severance payments, parental benefits and vacation credits	101,372
Implementation of various tax measures announced in the 2011 Federal Budget	19,059
Funding to begin the upgrade of the personal income tax processing system	6,216
Government advertising programs adjustment	1,000
Transfer to Shared Services Canada of email, data centre and network responsibilities	(72,266)
Transfer to Treasury Board Secretariat to support the National Managers' Community	(100)
Year-end adjustments to statutory authorities:	
• Increased disbursements to provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i>	73,871
• Increased spendable revenue mainly to provide services to Canada Border Services Agency	14,772
• Court awards	1,367
• Crown assets disposals	165
• Decreased employee benefits plan costs	(3,925)
• Decreased Children's Special Allowance payments	(3,454)
Other minor adjustments	254
Total Authorities at year-end^{1,2}	4,610,141

¹ Excludes amount deemed appropriated to Shared Services Canada.

² Numbers may not add due to rounding.

Estimates by vote

For information on Canada Revenue Agency organizational Votes and/or statutory expenditures, please see the Public Accounts of Canada 2012 (volume II). An electronic version of the Public Accounts is available at <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html>.

SECTION II: ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME

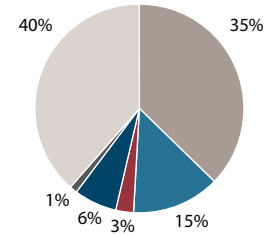
Strategic outcome

Taxpayers meet their obligations and Canada’s revenue base is protected.

Program activity 1: Taxpayers and business assistance

Program activity description

- Assisting taxpayers and businesses in meeting their obligations under the self-assessment system through the provision of accurate and timely responses to their enquiries; information products through various media such as, Website, pamphlets and brochures; targeted outreach activities and services; income and commodity tax rulings and interpretations; *Canada Pension Plan and Employment Insurance Act* eligibility determinations; services relating to the registration of pension and other deferred income plans; and services relating to the registration of charities.



Total Spending: \$530.5 million

- Enquiries and Information Services \$187M
- Rulings and Interpretations \$79M
- Registered Plans \$16M
- Charities \$30M
- Legislative Policy \$5M
- Statutory disbursements related to Canada/US Softwood Lumber Agreement \$214M

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
408,190	535,703	530,542

¹ Excludes amount deemed appropriated to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual	Difference
4,275	4,067	208

Program activity performance summary

Expected results	Performance indicators	Targets	Actual results
Taxpayers, businesses and registrants have access to timely and accurate tax information products and services	Percentage of 16 service standards in force for taxpayer and business assistance that meet targeted performance standard	100%	Met
	Percentage of accurately updated internal reference materials for taxpayer services and charities agents	100%	Met
Non-compliance with applicable legislation by organizations and businesses administering and/or producing registered plans, charities, and excise dutiable products is detected and addressed	Percentage of charities, registered plans, and commodity audits and activities completed compared to planned	90%	Met

Performance summary and analysis of program activity

Providing information

Web site

The CRA's Web site is our primary channel for providing general information to taxpayers and their representatives. We maintain 155,000 pages of information, which are regularly updated. We also actively search out best practices in Web site management and apply them where feasible and appropriate for our site.

- This past year we received 87.4 million visits to our Web site.

Outreach

In 2011-2012, the CRA continued to offer a variety of channels for providing information to taxpayers, such as face-to-face information sessions and webinars, which are Internet-based, interactive presentations. These offer taxpayers important information about starting a small business, registering for a GST/HST account, payroll requirements, preparing T4 slips, and more. They are also available for charities, scientific research and experimental development programs, tax preparers, and tax professionals. We also offer taxpayers a number of online videos about CRA programs and initiatives. We have been expanding the range of information that is available online so that taxpayers can get the information they need when they need it, from their home or office.

In 2011-2012, we:

- delivered 26 webinars.
- delivered 3,686 outreach sessions to more than 89,000 participants.
- released a video on our Web site entitled *Preparing your Income Tax and Benefit Return*.
- released four videos for businesses – *Starting Your Business*, *Payroll Information for a New Small Business*, *Keeping Records*, and *Reporting Business Income and Expenses*.

Social media

The CRA has been steadily building its capacity to offer information through popular social media tools such as YouTube and Twitter. During this year's tax season, we expanded the use of social media. This included tweeting news releases, tax tips, and notices of conviction for tax evasion as well as guiding audiences to content on our Web site. Our messages are commonly re-tweeted to a wider audience, which has further increased the number of CRA followers.

- Tweets during tax filing season reached more than 40,000 users.

In November, we launched a pilot project to progress from merely sharing messages on Twitter to interacting with followers. We began answering questions and offering assistance by tweeting links to our Web site. Through this exchange, we provided information on more than 20 topics ranging from tax credits to changes of address to finding the nearest tax services office.

We also continued to use CRA's YouTube channel to share informative videos about new tax credits like the children's art tax credit and our Netfile service.

- Our YouTube videos were viewed more than 36,500 times during 2011-2012.

Taxpayer interactions

Telephone services

The CRA's telephone services provide general information to taxpayers, and also help with more complex enquiries. Taxpayers prefer to find general information themselves on our Web site and then call the CRA if they need further explanation or information on how it applies to their specific circumstances.

- In 2011-2012, through agent and automated services, we answered 16,999,922 calls.

Processing services

Early certainty

Some taxpayers ask the CRA for written information on how a tax law applies in a specific context. The CRA provides non-binding, written technical interpretations on a particular aspect of tax law to help taxpayers ensure that they are compliant with the transactions they may be considering. Advance income tax rulings on a specific transaction proposed by a taxpayer are binding on the CRA, provided that the taxpayer undertakes the transaction as described. This technical service helps taxpayers by giving them the information they need to conduct their tax affairs with confidence and certainty in Canada and across international borders.

- The turnaround time for technical interpretations to taxpayers met our service standard for the fourth consecutive year.

Meeting our service standard for providing advance income tax rulings within 60 days has proved challenging for the CRA. These rulings often involve issues of great technical complexity and the workload is also often influenced by factors that are beyond the control of the CRA, such as legislative changes and court rulings. To respond, we made changes to the workflow process and revised our service standard for advanced income tax rulings. These changes set a challenging but realistic service standard for the CRA. We will explore opportunities to reduce workload pressures by providing comprehensive online information services that will give taxpayers the degree of early certainty they need to make informed decisions.

Complex intervention

Charities

Registered charities in Canada are tax exempt and can issue charitable donation receipts to donors. To keep these privileges, registered charities must file a registered charity information return and financial statements, and they must operate within the parameters of the *Income Tax Act*.

Although cases of serious and intentional non-compliance are not widespread, they do exist. Examples include abusive tax shelter schemes as described in the aggressive tax planning section, issuing false receipts, and unacceptable fundraising practices.

The level of compliance by registered charities is high and remains stable in comparison to prior years. The long-term filing rate remains high with the latest data available showing a rate of 98%.

- In 2011-2012, 1,104 registered charities were revoked for failure to file their annual return;
- We completed 713 audits of registered charities;
- Random audits resulted in three charities having their charitable status revoked.

Lessons learned

Consistent with the increased use of technology, the CRA has developed a series of tax information videos, which have the potential to expand the CRA's reach to individuals and businesses across Canada. We carefully monitored our caller volume, and maintained our high caller accessibility levels on all of our enquiries lines using additional resources as required. We did not meet our service standard for issuing advance income tax rulings: we recognize that we need to evolve this service, and our service commitment, to reflect the growing number and complexity of requests. Overall, we will continue to enhance our service offerings while maintaining reliable, secure systems so that taxpayers and businesses are equipped with information and tools needed to navigate and understand an often-complex tax system.

Performance report card

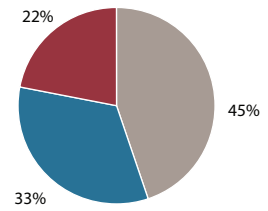
Indicators	Target	2009-2010	2010-2011	2011-2012	Rating
Average number of days to issue technical interpretation to taxpayers	90 days (avg)	89	87	90	Met
Average number of days to issue an advance income tax ruling to taxpayers	60 days (avg)	98	102	106	Not met
Percentage of general callers who reach our telephone service	90%	91%	92%	91%	Met
Percentage of business callers who reach our telephone service	90%	93%	92%	90%	Met
Percentage of Canada Child Tax Benefit (CCTB) callers who reach our telephone service	90%	92%	92%	91%	Met
Percentage of GST/HST credit callers who reach our telephone service	90%	91%	91%	90%	Met
Responses to simple charities applications within two months	80%	81.9%	87.5%	85.9%	Met
Responses to regular charities applications within six months	80%	79.8%	96.2%	91.3%	Met

For supplementary information on this program activity, please visit:
www.cra.gc.ca/annualreport

Strategic outcome

Taxpayers meet their obligations and Canada’s revenue base is protected.

Program activity 2: Assessment of returns and payment processing



Program activity description

- Processing and validating taxpayer returns for both individuals and businesses through initial assessment, validation, accounting, and adjustments; registering businesses for the Business Number, establishing, and maintaining accounts; and receiving payments.

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
602,949	679,696	642,057

¹ Excludes amount deemed appropriated to Shared Services Canada

2011-2012 human resources (full-time equivalents)

Planned	Actual	Difference
6,859	6,526	333

Program activity performance summary

Expected result	Performance indicators	Targets	Actual results
Individuals, businesses, and registrants are provided timely and accurate tax assessment notices and tax payment processing, while targeted reviews detect and address non-compliance by individuals with applicable tax laws	Percentage of 8 processing service standards (Individual Income Tax, Corporation Income Tax, GST/HST Returns, Excise and Other Levies) in force for Assessment and Benefit Services that meet or exceed targeted performance standard	100%	Met
	Percentage of individual (T1) returns processed accurately	98%	Met
	Ratio of dollar value of targeted versus random reviews	Not available	Not applicable

Performance summary and analysis of program activity

Taxpayer interactions

The CRA helps taxpayers make payments and file returns, and gives them other information they need so that they can comply with Canada’s tax laws. We aim to be timely, efficient, and accurate in handling taxpayers’ enquiries and transactions. Recognizing that taxpayers are more likely to comply if it is easy to do so, we aim for services that are easy to use and that reduce the compliance burden. Since many taxpayers prefer to use an authorized representative, the CRA provides services to assist tax intermediaries acting on behalf of their clients.

Online self-service

Many taxpayers and tax intermediaries prefer to carry out their business with the CRA on a self-service basis, using our secure online portals: My Account for individuals and My Business Account for businesses. Our Represent a Client portal enables tax intermediaries to carry out account-specific transactions on behalf of the individuals and businesses they represent. Our Quick Access service gives individuals immediate access to some of their information in My Account. In recent years, we have made it a priority to enhance our online portals: we see it as key to making compliance easier for individuals and for businesses.

My Account for individuals

- Our Quick Access self-serve Web pages had over 440,000 new unique users in 2011-2012 and about one million accesses each year since it was launched in 2007-2008.
- In 2011-2012, 5,837,173 users successfully logged in to My Account.
- We improved the look and feel to make it easier to navigate.
- We added seven new services and service enhancements to My Account during 2011-2012. Among the added features, My Account users can:
 - change marital status;
 - verify T4 and T4A slips to reduce reporting errors; and
 - view information such as tuition carry forward amounts.

My Business Account

- We added 23 new services and service enhancements to My Business Account during 2011-2012. Among the added features, My Business Account users can:
 - adjust a previously assessed GST/HST return online or file a GST/HST election online;
 - calculate instalment payments for the next filing period;
 - transfer payments from one program to another;
 - submit account-specific enquiries about GST/HST returns, GST/HST rebates, T2 corporation returns, and specialty business returns; and
 - view account-specific messages through the Message Centre on the My Business Account portal.
- Use of My Business Account has increased significantly since its introduction. In the last three years, the number of businesses enrolled in My Business Account increased by 70.9%.

Represent a Client

- We added new features to the Represent a Client portal to make it easier for tax preparers and professionals to manage accounts and make online requests to view their clients' transactions.
- There has been a substantial increase in the use of our Represent a Client service, which is a positive indicator that intermediaries are embracing this service.

Processing services

Each year, the CRA receives over 38.6 million tax and information returns from individuals, businesses, and third parties. The CRA processes these returns and enters the information into our systems. The information is used to update taxpayer accounts and determine current status of tax obligations. The returns are then filed for future reference. The CRA also processes over 34.7 million payments from a wide variety of sources and payment methods. Taxpayers count on the CRA to capture information accurately, and to fairly and quickly assess any remaining tax obligations, including any refunds or additional tax payable.

Returns

Individuals and businesses continue to shift to electronic transactions.

- Our electronic processing rates for corporate and GST/HST returns increased by 36.3% and 39.8% respectively in 2011-2012.
- Electronic processing of T4 and T5 information returns increased 2.8% and 32% respectively from last year.
- 91% of individuals filed their tax return on time.
- 85% of corporations with taxable income filed their tax returns on time.
- 94% of individuals and 90% of corporations paid their reported taxes on time.
- We processed 16.7 million individual tax returns filed electronically within 11 days of receiving them.
- For the 10.1 million individuals who filed paper returns, their returns were processed within 3.9 weeks of receipt.

When reviewing tax returns, we compare the information the taxpayer provided with available third-party information to ensure taxpayers have claimed the credits to which they are entitled. We adjust returns where needed and issue any applicable refund.

- During 2011-2012, we corrected nearly 307,000 individual returns.
- This resulted in an average beneficial adjustment of \$316 per return.

Payments

During 2011-2012, the CRA processed about 34.7 million tax payments; 33.4% were electronic payments. The total value of the payments processed was approximately \$419 billion.

Electronic payment makes payment of taxes owing convenient and easy for taxpayers. If taxpayers elect to pay by cheque, the CRA promptly deposits payments so that taxpayers can be certain of the status of their tax affairs.

- For the greater part of 2011-2012, we exceeded our target of depositing payments within 24 hours of receipt.
- The Canada Post labour dispute in June and July had an impact on our ability to meet our service targets for payment processing. As a result, our average for the year was 94% of payments deposited in 24 hours.
- We processed almost 1.5 million more electronic payments during 2011-2012 than in 2010-2011.
- We promoted the benefits of paying online to taxpayers during the 2011 filing season through the CRA Web site, news releases, videos, Twitter, and our tax filing season fact sheet. Our main message was “Save time, pay online!”

We are investigating future opportunities for improved ease and access for individuals and businesses, and we continue to move forward with our payment strategy to use new, secure technologies where possible.

Early intervention

Information technology, business intelligence, and our risk-assessment system are the cornerstone of our early intervention approach.

In 2011-2012, we processed approximately:

- 27 million individual and trust returns;
- 2 million corporate returns; and
- 7.5 million GST/HST returns.

All tax returns go through an extensive set of system validations for error detection and correction. This allows us to identify certain discrepancies in amounts, deductions, and credits that taxpayers reported on their tax return. We correct errors and omissions through an automated process and send a notice of assessment to the taxpayer explaining the results.

In addition, we use risk assessment models to identify tax returns for further review. We have four major early intervention processing review programs: confidence validity, processing review, individual matching, and the corporate assessing review program.

This early intervention review identified over \$1 billion of non-compliance in 2011-2012, similar to the dollar value identified last year.

The common areas of misunderstanding that we identify in this initial review process are analyzed to detect trends or gaps in services. Where appropriate, this information is entered into our risk-assessment systems to help us identify files for more in-depth review.

Confidence validity program

Our confidence validity program identifies and corrects errors and inadmissible claims on individuals' returns before finalizing a notice of assessment.

- In 2011-2012, we identified an average of \$445 per return in additional taxes assessed, for a total of \$156 million

Processing review program

After the notice of assessment for individual income tax is issued, our processing review program selects files that have been identified through our risk-scoring process for more in-depth review of specific elements like tax credits. We then ask taxpayers for more information to verify their claims.

- In 2011-2012, we identified \$213 million in federal, provincial, and territorial taxes through processing review.

Matching program

This step in our review process compares information we have from third parties with the tax returns that individuals filed. We correct information that is not accurate or complete in the original return.

- In 2011-2012, the matching program generated \$665 million in additional individual tax assessments.

Corporate assessing review program

This program validates and reviews corporate income tax returns to make sure that assessments are accurate. Since the reviews are conducted soon after the initial assessments are carried out, we find and correct errors early. This process minimizes the risk of paying penalties and interests.

This past year we reviewed 68,222 returns, an increase of 41% from last year, and identified \$51.8 million in additional tax. Our reviews also resulted in adjustments of \$273.8 million to corporate loss pool balances reported on corporation income tax returns.

Lessons learned

The growth in uptake of our online services tells us that the CRA is successfully responding to expectations for electronic self-services. Our enhancements to electronic services such as My Business Account, My Account, Quick access, and our Represent a Client service were well received. There were significant increases in the number of successful log-ins and new users. Promotion of electronic payment also resulted in greater use of this service than in prior years. We will continue to pursue future opportunities for improved ease and access for individuals and businesses, and we will continue to move forward with our payment strategy to use new, secure technologies where possible.

We will continue to use our online information and interactive services to advance our goal of making compliance easier for individuals and businesses, and helping tax intermediaries ably and accurately represent their clients.

Performance report card

Indicators	Target	2009-2010	2010-2011	2011-2012	Rating
Electronic payments	Upward trend	26.5%	29.7%	33.4%	Met
Percentage of individuals who file electronically	Upward trend	57.9%	60.3%	62.3%	Met
Percentage of GST/HST returns filed electronically	Upward trend	25%	41.3%	57.5%	Met
Percentage of corporations who file electronically	Upward trend	28.5%	46.8%	61.4%	Met
Processing excise tax, excise duty, softwood lumber returns, and air travellers security charge returns within 90 days	95%	97%	97.6%	98.2%	Met
Percentage of funds from non-electronic payments deposited within 24 hours of receipt	96%	96.6%	97.4%	94.1%	Mostly met ¹
Percentage of T1 individual income tax returns processed accurately	98%	99%	98.8%	98.8%	Met
Taxpayer-requested adjustments reassessed accurately	96%	96.1%	96.1%	96.7%	Met

¹ The postal disruption in June and July 2011 prevented the CRA from attaining a met rating.

For supplementary information on this program activity, please visit:
www.cra.gc.ca/annualreport

Strategic outcome

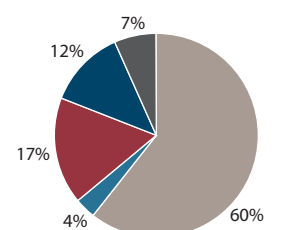
Taxpayers meet their obligations and Canada's revenue base is protected.

Program activity 3: Accounts receivable and returns compliance

Program activity description

- Identifying and addressing non-compliance with the registration, filing, remittance and payment requirements of the various Acts administered by the Canada Revenue Agency.

The activities support the prevention, detection and early resolution of non-compliance with filing, reporting, and remitting obligations, as well as, the collection of accounts receivable relating to individual and corporate tax returns, employer source deductions, Goods and Services Tax/Harmonized Sales Tax, other levies, and accounts receivable administered on behalf of other government departments. These activities are achieved by identifying opportunities for program improvements, developing, implementing and maintaining national systems, policies, procedures and guidelines, and the application of business intelligence and technology.



Total Spending: \$521.5 million

- Accounts Receivable – Tax Collections \$315M
- Accounts Receivable – Government Programs \$19M
- Trust Accounts – Compliance \$88M
- Non Filer / Non Registrant Compliance \$65M
- Automated operations and call centre \$35M

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
439,417	529,224	521,505

¹ Excludes amount deemed appropriated to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual	Difference
7,676	7,584	92

Program activity performance summary

Expected result	Performance indicators	Targets	Actual results
Non-compliance by individuals, businesses and registrants with the filing, registration, remitting and payment requirements of applicable tax laws is detected and addressed to protect Canada's revenue base	The percentage of total returns / remittances that are detected and addressed through CRA intervention and their related fiscal impact measured against budgeted forecast	95%	Met
	Percentage of accounts receivable dollars resolved in the fiscal year compared to the dollar value of accounts receivable (intake) received in the fiscal year	TBD	Not applicable

Performance summary and analysis of program activity

Complex intervention

When more serious discrepancies are identified, either through referrals from our early intervention programs or risk-assessment within specialized program areas, we refer files to the appropriate centres of expertise for a more intensive review. Business analytics and risk models help to determine the level of intervention needed.

Each of the following represents one of the CRA's more intensive compliance interventions.

Source deductions

Employers are responsible for withholding, remitting, and reporting payroll deductions. These monies are deemed to be held in trust by employers until they submit them to the CRA. These transactions are processed through CRA's Payroll Deductions system. Given the significant role that businesses play in collecting taxes on behalf of the CRA, we work to ensure the integrity of this process.

Our Trust Examinations Program reviews and examines source deductions and GST/HST collections by businesses.

In 2011-2012, the total value of identified employer compliance activities was \$1.7 billion, up slightly from the \$1.6 billion we identified last year.

Non-filer/non-registrant

This program is responsible for identifying individuals, corporations, and trusts that do not file tax returns, and businesses that should be registered to collect and remit GST/HST.

We use a graduated approach to address filing and registration non-compliance. This includes sending a letter, calling a taxpayer, or using our specialists to identify taxpayers who have not registered or have outstanding tax returns.

As a result of this program in 2011-2012:

- \$2.6 billion in taxes were identified;
- 630,384 returns were identified and filed;
- 8,569 business were identified and registered for GST/HST; and
- 154,671 GST/HST delinquent filers were identified and addressed.

Our actions contributed to 99% of corporations and 97.5% of individuals filing their returns within five years of the filing due date.

The CRA is always looking at new methods to encourage taxpayers to comply. This year we launched a project to send new GST/HST registrants and employers automated reminders of the dates that their returns and payments were due. We found that the registrants we contacted were 12% more likely to comply than those we did not contact. These results are encouraging and we will continue to test this reminder service for new businesses in 2012-2013.

Payment of tax debt

The final step in our compliance review process is to ensure that taxpayers pay any amounts due. An effective debt resolution program is a critical element in addressing non-compliance and protecting Canada's revenue base.

We processed approximately \$419 billion in taxes and duties last year. Of this amount, more than \$411 billion was received within the 2011-2012 reporting period. Our receivables inventory that is less than one year old is \$7.5 billion or about 1.8% of the gross receipts.

Over the past five years, our data indicates that most individuals and businesses pay their taxes on time, and continue to surpass our 90% target.

When taxpayers have not met their obligations, we use a range of enforcement actions with varying degrees of intervention.

It has been determined that our ability to collect a debt depends on both timely and efficient debt collection, as the longer the debt exists, the harder and more expensive it is to collect. We rely on approaches that favour swift actions, such as our Debt

Management Call Centre, which addresses high-volume, low-risk tax debt at minimal cost, and allows our collection agents in tax services office across Canada to focus on addressing more complex and higher-risk accounts.

We continue to pursue more risk-responsive enforcement approaches to address non-compliance in our Accounts Receivable programs. We continue to update our strategies to respond to newer workloads and to increase our efficiency. Initiatives such as the Accounts Receivable National Inventory model, introduced in April 2011, and the professional sector pilot project aim to make our inventory management process more efficient.

- This past year, our tax services office agents resolved 61.6% of this new debt within the year of intake, surpassing our objective of 60%.
- The \$18.4 billion tax debt we resolved in our tax services offices represents 94% of the dollar value of the intake of new debt in the past year.

Lessons learned

The CRA's graduated approach to early intervention, complex intervention, enforcement and payment of tax debt has proven to be efficient and effective. Long-term filing rates for individuals, corporations, and charities are close to 100%. We also found that 90% of corporations and 94% of individuals remitted their taxes on time, and our debt management efforts resolved \$40 billion of tax debt. We also launched a project to send new GST/HST registrants and employers automated message reminders of the dates that their returns and payments were due. Registrants contacted were 12% more likely to be compliant than those who were not contacted. We will continue to test this reminder service for new business in 2012-2013.

We will continue to pursue more risk responsive enforcement approaches to address non-compliance in our Accounts Receivable Programs and we will evolve our strategies to respond to newer workloads.

Performance report card

Indicators	Target	2009-2010	2010-2011	2011-2012	Rating
Identified non-compliance					
T1/T2/T3 non-filers and GST/HST non-registrants (\$ billions)	\$2.6 ¹	\$2.8	\$2.8	\$2.6	Met
Employer/Payroll/GST/HST Reviews, Exams and Compliance Audits (\$ billions)	\$1.6 ¹	\$1.6	\$1.6	\$1.7	Met
Payment of tax debt					
Percentage of intake resolved in the year of intake	60%	54.6%	64.4%	61.6%	Met
Dollar value of TSO production as a percentage of dollar value of TSO intake of new accounts receivable	90%	95.5%	93%	94.2%	Met
Dollar value of TSO tax accounts receivable older than five years (\$ billions)	<\$3.5	\$2.9	\$3.4	\$3.4	Met

¹ The target is derived from a 3 year average of actual results as reported in the 2008-2009, 2009-2010 & 2010-2011 Annual Report.

For supplementary information on this program activity, please visit:
www.cra.gc.ca/annualreport

Strategic outcome

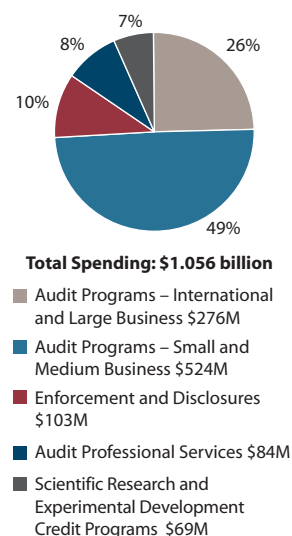
Taxpayers meet their obligations and Canada's revenue base is protected.

Program activity 4: Reporting compliance

Program activity description

- Verifying the complete and accurate disclosure by taxpayers of all required information to establish tax liabilities and protect the tax base through audit, enforcement, and incentive administrative activities.

Activities for enhancing compliance include: increasing taxpayers understanding of their tax obligations through outreach activities, client service, and education; identifying and addressing non-compliance through risk assessment, audit and investigation; and establishing strategic partnerships with stakeholders to leverage compliance efforts.



2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
960,180	1,101,008	1,055,758

¹ Excludes amount deemed appropriated to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual	Difference
10,481	9,949	532

Program activity performance summary

Expected result	Performance indicators	Targets	Actual results
Non-compliance by individuals, businesses and registrants with the reporting requirements of the legislation the CRA administers is identified and addressed to protect Canada's revenue base	Percentage of the major reporting compliance workloads completed, compared to planned	100%	Met
	Percentage of risk-assessed activities resulting in the detection of non-compliance in International and Large Business, Small and Medium Enterprises and Enforcement and Disclosures	74%	Met

Performance summary and analysis of program activity

Influencing compliance attitudes

Helping taxpayers understand the positive outcomes of compliance and the negative consequences of non-compliance is important to voluntary compliance. We need to make sure that taxpayers understand their tax obligations and that they are motivated to comply. The CRA works with partners in government, the community, and industry to help taxpayers understand that paying taxes is a part of responsible citizenship and a healthy economy.

The underground economy is a particular focus of our activities to influence compliance attitudes. A Statistics Canada study¹ released in September 2012 found that in 2009, the three most significant sectors of the economy engaging in underground economy activity were construction (29%), retail trade (20%), and accommodation and food services (12%). The CRA provides outreach to businesses and individuals who may be exposed to the underground economy to help them understand the risks.

- The CRA partnered with the provinces of British Columbia, New Brunswick and Ontario to pilot the Trade School Initiative, a new educational project intended to raise awareness of tax responsibilities for students preparing for careers in the construction and renovation industry.
- The CRA's Get it in Writing campaign reminds homeowners undertaking renovation projects of the protection that a formal contract provides.

Voluntary disclosures

The Voluntary Disclosures program gives taxpayers a way to come forward and correct inaccurate or incomplete information. We offer this program as an opportunity to correct earlier mistakes and put their tax affairs in order. Taxpayers using the program have to pay the taxes owing, plus interest, but may avoid penalties and prosecution relating to the amounts disclosed. Information gained from these disclosures is helpful in identifying other taxpayers who may not have correctly identified their tax liability. During 2011-2012, we received 18.4% more voluntary disclosures, and identified over \$863 million in unreported income. The surge in cases received is partially attributable to better promotion of the program, but it is also a positive sign that taxpayers are increasingly becoming aware of their tax obligations.

Complex intervention

When more serious discrepancies are identified, either through referrals from our early intervention programs or risk assessment within specialized program areas, we refer files to the appropriate centres of expertise for a more intensive review. Business analytics and risk models help to determine the level of intervention needed.

Each of the following represents one of the CRA's more intensive compliance interventions.

Risk and the audit process

Risk assessment is the foundation of the CRA's approach to addressing income tax non-compliance. Generally speaking, audit interventions are reserved for the most serious instances of non-compliance. However, a measured amount of audit resources are also invested in research audits and other compliance-related projects. These projects allow the CRA to identify emerging risks and to validate the effectiveness of our risk assessments, so that we constantly refine the strategies we use to address risk.

The Research Audit Program is a four-year project that will establish statistically valid compliance rates for various industry sectors and enable us to more accurately identify potential non-compliance in the future.

In the small and medium enterprises sector, we address common compliance issues in higher-risk sectors and write taxpayers to alert them to potential inaccuracies.

In some cases, the letters might be used to explain what type of deductions are permitted under the *Income Tax Act* and the type of documents needed to substantiate such claims. Businesses are then asked to review their returns and, if they have any questions or concerns, to get in touch with our office. This method of contact with businesses often leads to taxpayers amending their returns and changing their approach to future tax returns.

¹ For more information about Statistics Canada's report, *Estimating the Underground Economy in Canada, 1992-2009*, go to www.statcan.gc.ca/day-quo/index-eng.htm.

In 2011-2012, our audit programs identified over \$8.7 billion² in non-compliance by applying a risk-based approach.

- income tax audits of taxpayers in our small and medium programs identified over \$1.5 billion in non-compliance.
- income tax audits of taxpayers in our international and large-business programs identified over \$5.6 billion in non-compliance.

GST/HST

Businesses can receive a refund cheque if their input tax credits are higher than the GST/HST collected. In 2011-2012, we implemented a model to improve our pre-payment review of GST/HST refunds by making sure that we screen GST/HST credits and certain debit returns consistently.

- Audit activity related to GST/HST identified over \$1.1 billion in non-compliance.

Aggressive tax planning

Aggressive tax planning is a challenge that developed countries are confronting. It can involve very complex structures with both domestic and international elements. It is often arranged by tax planners and promoters for individuals, trusts, and corporations, and may have a legal basis in a technical sense, but it goes beyond what Parliament intended when the laws were passed. In general, aggressive tax planning arrangements are made for the primary purpose of avoiding taxes. Left unchecked, aggressive tax planning is a risk to the integrity and fairness of Canada's tax system.

The CRA has a multi-faceted strategy to combat aggressive tax planning. It includes using specialists at our centres of expertise, working with other tax jurisdictions and the Organisation for Economic Co-operation and Development (OECD), to share information on tax schemes, identifying legislative amendments to close loopholes discovered during audits, and working with the Department of Finance to negotiate international tax information exchange agreements.

This strategy resulted in identifying \$1.3 billion in fiscal impact in 2011-2012.

Another part of our strategy involves third-party penalties to dissuade promoters from marketing aggressive tax planning arrangements. During 2011-2012, we closed a total of 17 third-party penalty cases. The total value of the penalties applied was in excess of \$2.5 million.

Scientific research and experimental development

In 2011, our Scientific Research and Experimental Development (SR&ED) program provided more than \$3.6 billion in tax assistance to over 23,000 claimants, an increase of \$100 million over the previous year. We also ensure that businesses prepare their claims in compliance with tax laws, policies, and procedures. As a result of those efforts, we identified and addressed \$425 million of non-compliance last year.

During 2011-2012, we continued to consolidate and clarify our current SR&ED policy documents and related guidance to help claimants better understand how the program works. Online public consultations ended in February 2012 and we expect to report the results in our *2012-2013 Annual Report to Parliament*.

In October 2011, the Research and Development Review Expert Panel released its report to the Government of Canada on its review of federal support for research and development. The panel noted that the SR&ED program plays a fundamental role in lowering the costs of industrial research and development (R&D) for businesses, enhancing investment in R&D, and making Canada a more attractive place to locate R&D. The panel also provided recommendations to the Government of Canada on how to improve support for businesses and help them grow into larger, globally competitive companies. In the 2012 Federal Budget, informed by the advice of the Research and Development Review Expert Panel, the Government of Canada announced a number of legislative measures to simplify the SR&ED program and make it more cost-effective, and administrative measures to enhance the predictability of the program. Over the next few years, the CRA will be implementing these measures.

² Includes GST/HST of \$1.1 billion.

Underground economy

The underground economy is defined as undeclared income that is earned from economic activity that would generally be taxable if it were reported for tax purpose. The underground economy undermines the competitiveness of Canadian businesses because it offers an unfair advantage to those who don't comply with tax laws. These businesses impose a greater burden on all Canadians for funding social economic programs such as health care and education. Evidence shows that businesses participating in the underground economy also create other problems such as denying employees access to social programs like employment insurance, the Canada Pension Plan, or Quebec Pension Plan. Consumers are also affected: they have limited legal recourse for products and services provided by businesses participating in the underground economy.

We use a two-part approach to address underground economy activity. First, through our outreach efforts, we educate people and influence their attitude about compliance. Second, we use research such as the Statistics Canada study on the underground economy, to adjust how we allocate resources to sectors that show the highest risk. This Statistics Canada report³ estimated that underground economic activity in Canada was equivalent to 2.3% of Gross Domestic Product in 2009, which was down from 2.9% in 1992.

This type of non-compliance is complex, so it is important for revenue administrations to share details about different approaches and experiences, successful or not, in dealing with these issues. The CRA continues to work with Canadian and international partners through research, information-sharing, communication, education, and compliance activities to reduce participation in the underground economy.

The CRA led the task group that produced the 'Reducing opportunities for tax non-compliance in the underground economy' report for the OECD Forum on Tax Administration. The report was prepared to help revenue administrations advance their thinking and practices about identifying and handling risks related to the underground economy and electronic payment systems, and to promote discussion and knowledge-sharing on these important issues.

- In 2011-2012, we audited 10,627 underground economy files.
- 80% of the files audited resulted in a tax assessment.
- These audits identified \$513 million of unreported income with an associated fiscal impact of \$260 million.

Enforcement

The Enforcement program undertakes audits and criminal investigations of those suspected of deriving income from criminal activities and of those who evade taxes.

The CRA addresses these cases of deliberate fraud and in some instances refers cases to the Public Prosecution Service of Canada. Taxpayers may face penalties, court fines, and up to five years in prison.

In 2011-2012, the program conducted 819 enforcement audits that resulted in finding \$67.4 million of additional taxes owing. A total of 137 taxpayers were convicted of tax evasion or fraud, and 24 individuals received prison sentences.

The courts imposed \$6.4 million in fines and 36 years of jail sentences. In addition, 120 income tax and GST/HST investigations were referred to the Public Prosecution Service this past year. Some results are lower than those of previous years because the files are more complex and require more resources to complete.

We issue news releases about convictions on tax evasion to local, regional, and national media to demonstrate that there are consequences to non-compliance and to help maintain public confidence in the integrity of Canada's self-assessment system. In 2011-2012, the CRA distributed 175 news releases on convictions to generate articles and broadcast news topics.

³ For more information about Statistics Canada's report, Estimating the Underground Economy in Canada, 1992-2009, go to www.statcan.gc.ca/dai-quo/index-eng.htm.

Lessons learned

The CRA implements robust checks and balances that protect Canada's revenue base from intentional and non-intentional non-compliance. We met or mostly met all of our performance measures for addressing non-compliance. The CRA's graduated approach to early intervention, complex intervention, enforcement and payment of tax debt has proven to be efficient and effective. Our enforcement actions identified \$14.1 billion of non-compliance. We continued to work with Canadian and international partners via research, information-sharing, communication, education, and compliance activities, to reduce participation in the underground economy. The CRA led the task group that produced the 'Reducing opportunities for tax non-compliance in the underground economy' report for the OECD Forum on Tax Administration. The report was prepared to help revenue administrations advance their thinking and practices about identifying and handling risks related to the underground economy and electronic payment systems, and to promote discussion and knowledge-sharing on these important issues.

In 2012-2013, we will focus on higher risk cases. We will also continue to employ a suite of interventions allowing us to address non-compliance as early as possible while imposing the least level of burden on the taxpayer.

Performance report card

Indicators	Target	2009-2010	2010-2011	2011-2012	Rating
Percentage of cases resulting in a change					
International and large business program	90%	95.7%	93.7%	87.4%	Mostly met
Small and medium-sized enterprises	75%	81.1%	80.3%	75.3%	Met
Underground economy	75%	78.9%	78.4%	79.8%	Met
Fiscal impact¹ generated per audit FTE (\$ million)					
International and large business ²	\$2.7	\$3.5	\$2.9	\$2.8	Met
Small and medium-sized enterprises ³	\$0.35	\$0.40	\$0.39	\$0.45	Met
Other audits	\$0.39	\$0.40	\$0.42	\$0.39	Met
Overall	\$0.9	\$1.15	\$1.02	\$1.01	Met

Volumetrics	2009-2010	2010-2011	2011-2012
Fiscal impact¹			
International and large business (\$ billion) ⁴	\$7.0	\$6.1	\$5.6
Small and medium-sized enterprises (\$ billion) ⁴	\$1.6	\$1.5	\$1.5
GST/HST for ILB and SME (\$ billion)	\$0.7	\$0.7	\$1.1
Other audits (\$ million)	\$599	\$626	\$543
Overall fiscal Impact (\$ billion)	\$9.9	\$8.9	\$8.7

¹ Fiscal impact includes current and future tax revenues identified from our audit efforts, including penalties and interest, but excluding the impact of Appeals reversals and payment non-compliance.

² This includes all support staff, auditors, management, and executives who report to the audit functional area.

³ This includes the fiscal impact generated through our work in addressing the underground economy.

⁴ Previous year results have been restated as they included GST/HST.

For supplementary information on this program activity, please visit:
www.cra.gc.ca/annualreport

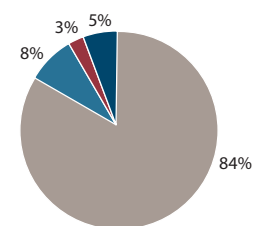
Strategic outcome

Taxpayers meet their obligations and Canada's revenue base is protected.

Program activity 5: Appeals

Program activity description

- Providing a timely and impartial dispute resolution process for taxpayers who disagree with decisions made by the CRA, by actively engaging in dialogue with the taxpayer and exploring alternative processes to resolve disputes when appropriate, as well as assisting the Department of Justice in handling appeals to the courts.



Total Spending: \$175.1 million

- Income Tax Objections, Determinations and Appeals to the Courts \$147M
- Commodity Taxes Objections, Determinations and Appeals to the Courts \$14M
- Canada Pension Plan / Employment Insurance Objections, Determinations and Appeals to the Courts \$6M
- Service complaints \$8M

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
131,819	182,837	175,064

¹ Excludes amount deemed appropriated to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual	Difference
1,377	1,434	(57)

Program activity performance summary

Expected result	Performance indicator	Target	Actual result
Taxpayers receive a timely and impartial review of contested decisions made under legislation administered by the CRA and the handling of service complaints is timely and consistent	Targeted levels of timeliness, transparency, consistency, impartiality, and accuracy for Income Tax and Commodity Tax objections, CPP/EI appeals to the Minister and Service Complaints are met	98%	Mostly Met

Performance summary and analysis of program activity

Services

Service complaints

Our Service Complaints Program helps identify problems and propose solutions, and it provides taxpayers with a formal avenue of redress related to the services they have received. If taxpayers are not satisfied with how we resolved their service complaint, they can then go to the next step and notify the Taxpayers' Ombudsman.

During 2011-2012, the CRA:

- resolved 2,347 service complaints; and
- resolved taxpayers' complaints within 30 business days 94.5% of the time.

We conduct analysis and track trends on service issues so that we continue to improve service and fix the root cause of these complaints. Using public opinion research, we discovered that not many people know about the CRA Service Complaints Program. We took the following actions to address this during 2011-2012:

- developed and promoted a CRA brochure on service complaints;
- updated the complaints and disputes pages on the CRA Web site with improved information and easier navigation to make information easier to access by taxpayers, tax intermediaries, and benefit recipients;
- delivered webinars to members of Parliament and their staff about the Taxpayer Bill of Rights and the CRA service complaints process; and
- developed a new CRA brochure about complaints and disputes that will be available in 2012-2013.

Disputes

The CRA manages a function that provides a timely, impartial, and consistent review process to resolve disputes arising from decisions we have made under the laws we administer. We deal with disputes that arise from assessments of income tax, excise tax, goods and services tax, harmonized sales tax, benefit programs, softwood lumber products export, air traveller security, and charities.

During 2011-2012:

- we resolved almost 77,000 disputes; and
- we received 15.6% fewer income tax disputes.

We conduct these reviews by actively engaging in dialogue with the taxpayer. Decisions must be in keeping with applicable legislation and must result in a fair and equitable treatment of taxpayers. To ensure impartiality, when taxpayers file a notice of objection, their review is completed by an appeals officer who was not involved in the original assessment or reassessment.

Reviews

The regular redress workload includes objections to income tax and GST/HST assessments from single taxpayers, whether individuals or businesses, corporations, or other entities, that disagree with an initial assessment. We generally receive between 55,000 and 65,000 regular objections a year, and we close a similar number. This workload includes some of CRA's most complex files, and may involve issues such as international transfer pricing and the application of the General Anti-Avoidance Rule.

Although intake of regular objections involving income tax assessments continue to rise, recent additional investments in this program have resulted in a reduction of the workload inventory, and file completions have exceeded intake for the first time in several years.

- For our least complex files, we closed 11% more files (from 20,006 to 22,319) and we improved the timeliness of our decision-making.

The CRA sends an acknowledgement letter to taxpayers who use our redress services. The service standard is for the CRA to mail the acknowledgement letter within 30 days 85% of the time. In 2011-2012, we met the standard only 54.7% of the time. We are now considering the feasibility of this standard, given that we have not met the target for this indicator over the past three years.

Objections relating to taxpayers involved in aggressive tax planning activities account for over 70% of our objections workload. We have kept most of these objections on hold until legal cases involving aggressive tax planning are resolved. Only a few lead cases have been resolved by the courts so far.

- Although we continue to receive a steady number of disputes relating to aggressive tax planning, the rate of increase in inventory levels has slowed from 26% in the previous year to 12.5% this year.

Over the past few years, we have taken the following actions to manage this work and optimize our redress programs:

- we consolidated intake of the income tax and GST/HST objections to enhance efficiency;
- we treated all lower-complexity income tax and GST/HST workload as national workload, allowing it to be assigned to any office that has capacity; and
- we centralized all redress workload relating to large case files in each region.

Additional resources were strategically dedicated to the resolution of high volume, low complexity workloads, resulting in an increase of 8.4% of objections resolved compared to the previous year. The CRA will continue to add to its resources to resolve the regular objection workload over the next few years.

The CRA is responsible for the administrative review processes in the *Canada Pension Plan (CPP)* and the *Employment Insurance Act (EI)* pertaining to insurability and pensionable employment.

- The average time to resolve a CPP/EI appeal to the Minister of National Revenue fell to 135 days in 2011-2012, an improvement over the 155 days it took during the previous year.

Litigation

If a matter is not resolved to the taxpayer's satisfaction at the administrative review level, the taxpayer can appeal to the Tax Court of Canada. This level of review is referred to as litigation and is subject to the rules of the Tax Court.

The issues that the Tax Court hears range from the application of the General Anti-Avoidance Rule, to transfer pricing issues, to Aboriginal taxation. In certain circumstances, taxpayers can appeal to the Federal Court of Appeal and Supreme Court of Canada. Among other significant court cases, this year the Supreme Court of Canada upheld the CRA's position on applying the General Anti-Avoidance Rule to corporate amalgamations, and it provided guidance on the scope of tax exemptions under the *Indian Act*.

The Federal Court of Appeal confirmed our Minister's statutory duty to assess GST under the *Excise Tax Act* and resolved the gifting intent that is needed to claim donation tax credits.

In addition to these judicial developments, the CRA collaborated with the Department of Justice on cases before the Supreme Court of Canada involving the residency of trusts under the *Income Tax Act*, the legal test applicable to farming losses under the Act, and the application of transfer pricing provisions under the Act and the guidelines of the Organisation for Economic Co-operation and Development.

Taxpayer relief

Taxpayer relief provisions allow the CRA to cancel penalties and interest; accept late-filed, amended, or revoked income tax elections; and provide income tax refunds beyond the three-year period normally allowed. These provisions are intended to help taxpayers who are not able to meet their tax obligations because of extraordinary circumstances such as financial hardship, disasters such as floods or fire, or an error in a CRA publication.

In 2011-2012, we raised awareness of our taxpayer fairness instruments by improving our Web site; providing information to tax intermediaries; and reviewing guides, pamphlets, and other publications so that information is clear and consistent for all Canadians.

Taxpayer relief provisions give us some flexibility and allow us to be more responsive in situations where it would be unreasonable or unfair to penalize the taxpayer.

The total value of the relief provided to 204,740 taxpayers amounted to more than \$362 million in 2011-2012.

Lessons learned

The CRA is continuing to improve on the time it takes to process disputes. The actions we have taken to centralize the workload distribution of the least complex disputes improved both our timeliness and age of inventory. The number of disputes received decreased last year largely because of the lower number of aggressive tax planning files that we received. Our strategic actions show improvements in the delivery of recourse services. Although we continue to have challenges with processing disputes quickly, we feel that we mostly met this core business outcome.

Performance report card

Indicators	Target	2009-2010	2010-2011	2011-2012	Rating
First contact letter for disputes within 30 days	85%	50%	50.5%	54.7%	Not met
Service complaints – acknowledged within 48 hours	95%	97.9%	96.6%	97%	Met
Service complaints – taxpayers contacted within 15 days	90%	94.5%	93.1%	96%	Met
Average age of Appeals workable inventory (in days) – income tax files	Neutral or downward trend	215	228	238	Not met
Appeals activities that met standards for consistency – income tax files	97%	98.6%	98.7%	99%	Met
Appeals activities that met standards for transparency – income tax files	98%	99.7%	98.7%	99%	Met
Taxpayer relief provisions –consistent application (per Quality Assurance Program) ¹	95%	95%	97%	97%	Met

¹ Consistency results for taxpayer relief requests are based on limited sampling size that is anticipated to increase as quality assurance measures mature.

For supplementary information on this program activity, please visit:
www.cra.gc.ca/annualreport

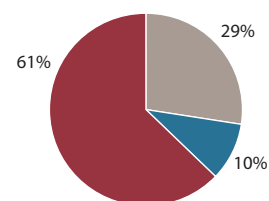
Strategic outcome

Eligible families and individuals receive timely and correct benefit payments.

Program activity 6: Benefit programs

Program activity description

- Providing Canadians with income-based benefits and other services that contribute directly to their economic and social well being through administration of the Canada Child Tax Benefit, Goods and Services Tax/Harmonised Sales Tax credit, Children's Special Allowances, the Disability Tax Credit, the Universal Child Care Benefit, and Working Income Tax Benefit advance payments as well as a range of ongoing benefits and one-time payment programs on behalf of the provinces and territories, and other federal government departments.
- Assisting benefit recipients in meeting their obligations through the provision of timely responses to their enquiries.



Total Spending: \$369.8 million

- Benefit Programs Administration \$109M
- Benefit Enquiries \$37M
- Children's Special Allowance \$224M

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
356,806	385,717	369,783

¹ Excludes amount deemed appropriated to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual	Difference
1,592	1,357	235

Program activity performance summary

Expected result	Performance indicators	Targets	Actual results
Benefit recipients are provided timely and accurate eligibility determinations and payments, and have access to timely and accurate information	Percentage of the 10 service standards in force for Benefit administration and enquiries which have met targeted performance standard	100%	Met
	Canada Child Tax Benefit (CCTB) overpayment debt as a percentage of payments issued	less than 0.4%	Mostly Met

Performance summary and analysis of program activity

Providing information

The CRA's Web site is the primary channel for providing general information and tools to benefit recipients. The site offers information on the different types of benefits and credits available, information on applying online, online calculators, and commonly used forms. For instance, the child and family benefits online calculator gives users an idea of what their benefit amounts will be. We also use an electronic mailing list to notify benefit recipients¹ when payments will be issued and, to remind them of their obligation to notify us when their life situation changes.

¹ This service is available to those who sign up.

Self-service

Many benefit recipients prefer to carry out their business with the CRA on a self-service basis, using our secure online portal for individuals, called My Account.

Recipients can manage their benefit information online through My Account by:

- viewing their Canada child tax benefit, universal child care benefit, GST/HST credit, and related provincial and territorial program payments;
- viewing their account balance and statement of account;
- authorizing representatives to act on their behalf;
- arranging for direct deposit; and
- changing their address or marital status.

Our Quick Access service gives individuals immediate access to some of their information in My Account. This service is a popular method for clients to easily access benefit information. This year there were 1,123,208 visits to Quick Access pages.

Our Automated Benefit Application (ABA) service, introduced three years ago, has eliminated the need for separate applications for credits that the CRA delivers, including federal and provincial or territorial benefits. Six provinces now use this service, with Manitoba joining in July 2011. Through the ABA service, the CRA receives birth information directly from provincial or territorial vital statistics agencies and uses this information to register Canadian newborns for the benefit and credit programs that we administer. The number of applicants using this service continues to grow.

- In 2011-2012, 92.4% of eligible applicants used this online service.

We continue to work with provinces and territories that are not yet using the ABA service to encourage them to do so.

Enquiries

The CRA's telephone services provide general information to taxpayers, and also help taxpayers with more complex enquiries. Taxpayers prefer to find general information themselves on our Web site and then call the CRA if they need further explanation or information on how it applies to their specific circumstances.

In 2011-2012:

- through agent and automated services, we answered 6,919,000 enquiries related to the Canada child tax benefit, GST/HST credit, and provincial programs;
- we met our service standard by answering 76% of our Canada child tax benefit telephone enquiries within two minutes; and
- we exceeded our service standards for accuracy and timeliness in responding to written enquiries and telephone referrals from call centres.

Validating eligibility

Canadians count on receiving the right amount of benefits on time, so we strive to ensure that we do not cause hardship by overpaying or underpaying them.

We need accurate and up-to-date information from benefit recipients to calculate entitlements correctly. We regularly review accounts and our processing results to verify the accuracy of payments. In addition to checking information with recipients about marital status, child care situations, and income, we use sophisticated risk-assessment tools to determine which accounts should be reviewed. During 2011-2012, we reviewed 171, 832 high-risk accounts and adjusted 62% of them.

We tell individuals how their accounts will be adjusted so they understand how we calculate benefits and what they are entitled to receive.

Processing

In 2011-2012, the CRA processed 762,000 applications for a benefit or credit payment and elections to change marital status. We dealt with 756,000 account maintenance adjustments, updating personal information on a benefit recipient's account. We processed 951,000 GST/HST credit account redeterminations.

In addition:

- we issued 111 million benefit payments totalling almost \$21 billion to approximately 12 million recipients; and
- we issued \$915 million in disability tax credits for 587,000 individuals.

Lessons learned

During 2011-2012, we added features to help individuals get quick access to their benefit information. Our work with targeted validation of accounts helped us to ensure entitlements are accurately calculated and to identify outstanding debts. We added services for our government clients, reducing administrative duplication and costs. The results that we achieved during 2011-2012 show that we met our outcome of ensuring that Canadians had access to the benefits and credits they were entitled to, and that related payments were on time and correct.

In 2012-2013, we will continue to improve our online information and interactive services to advance our goal of making it easier for benefit and credit recipients to access information quickly, apply for benefits that they are eligible for, and receive accurate payments.

Performance report card

Indicators	Target	2009-2010	2010-2011	2011-2012	Rating
Percentage of benefit recipients who receive payments on time	99%	99.7%	99.8%	99.9%	Met
Percentage of CCTB recipients who provide complete and accurate information and receive the proper entitlement	95%	94.4%	95.5%	Not applicable¹	Not applicable ¹
CCTB overpayment debt as a percentage of payments issued	<0.4%	0.1%	0.4%	0.6%	Mostly met
Percentage of benefit applications and marital status change forms processed on time	98%	98.8%	98.7%	99.0%	Met
Percentage of CCTB accounts reviewed that were adjusted	50%	53.5%	49.9%	61.7%	Met
Percentage of accurate payments when processing benefit applications and marital status change forms	98%	99.4%	99.8%	99.5%	Met
Percentage of accurate payments when processing account maintenance adjustments	98%	100%	98.2%	96.6%	Mostly met

¹ The study that produces this result will now be performed every two years; the next results will be available for 2012-2013.

For supplementary information on this program activity, please visit:
www.cra.gc.ca/annualreport

Strategic outcomes

Taxpayers meet their obligations and Canada's revenue base is protected; *and* Eligible families and individuals receive timely and correct benefit payments.

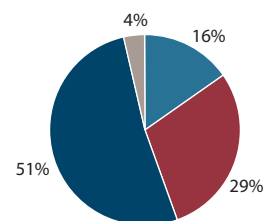
Program activity 7: Internal services

Program activity description

- The internal services program activity supports all strategic outcomes and is common across government.

Internal services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations of an organization.

These groups are: management and oversight services; communications services; legal services; human resources management services; financial management services; information management services; information technology services; real property services; materiel services; acquisition services; and travel and other administrative services. Internal services include only those activities and resources that apply across an organization and not to those provided specifically to a program.



Total Spending: \$1.054 billion

- Governance & Management Support \$166M
- Human & Financial Resource Management Services \$306M
- Information Technology Services \$538M
- Assets Management Services \$44M

2011-2012 financial resources (thousands of dollars)

Planned spending	Total authorities ¹	Actual spending ¹
1,391,188	1,192,400	1,053,851

¹ Excludes amount deemed appropriated to Shared Services Canada.

2011-2012 human resources (full-time equivalents)

Planned	Actual ¹	Difference
8,406	8,563	(157)

¹ Excludes amount deemed appropriated to Shared Services Canada.

Performance summary and analysis of program activity

Improving our human resources capacity

Our success is built on our forward-looking approach to strategic human resources planning and our responsiveness to the changing socio-economic environment. A knowledgeable and mobilized workforce is essential if we want to maintain the trust of taxpayers and deliver core business operations.

Strategic planning

In June 2011, we published an updated version of the Agency Strategic Workforce Plan. We identified positions and knowledge areas that are critical for achieving our objectives. They will remain a priority for the CRA in 2012-2013.

We established an Integrity Framework to formalize our culture of integrity in workplace policies, programs, and processes. We launched a communication strategy in late 2011-2012 to promote awareness and understanding of our Integrity Framework among employees.

The CRA's Leadership Continuum initiative ensures that leadership learning and development are strategic and integrated. In 2011-2012, key initiatives of this program included:

- launching a mandatory learning program for newly appointed executives;
- offering "armchair discussions" to address topics of interest to executives; and
- reviewing our Executive Development Program, Middle Management Development Program, and Learning Program.

Responsiveness

In 2011-2012, we addressed a number of significant human resource challenges.

- The results of a 2011 referendum in British Columbia will see the return of a provincial sales tax (PST) and the goods and services tax (GST) on April 1, 2013. We worked with British Columbia to secure provincial employment opportunities for 129 employees who joined the CRA when the harmonized sales tax was implemented in British Columbia in 2010.
- 817 former Ontario government employees joined CRA offices throughout the Ontario region in March 2012 when the HST was implemented in that province¹.

Information technology responsiveness and sustainability

The CRA has a strong reputation for excellent and innovative service delivery. Maintaining this reputation requires an ongoing investment in information technology as well as the continued advancement of our annual sustainability assessment process to identify the health of our systems and ensure that highest-priority applications receive funding. The return on this investment is visible in the case of online service offerings. We also invest in less visible innovations that shadow our online offerings. These investments enable our core business operations and contribute to our excellent service delivery.

In 2011-2012:

- we enhanced our protection of taxpayer and benefit recipient information by moving from an older technology to a newer, more secure electronic data file transfer system that transmits close to four terabytes of encrypted data quickly and efficiently;
- we completed a project to ensure that our IT system for human resources financial management will continue to provide reliable and efficient support for internal transactions;
- we transferred IT infrastructure services for the CRA to Shared Services Canada;
- we entered into a trilateral arrangement with the Bank of Canada and Public Works and Government Services Canada to ensure sustainability of our data centre services in the National Capital Region from the private sector; and
- we were recognized at the Government Technology Exhibition and Conference as Distinction Award Honourees for five projects.

Accountability and operational efficiency

Transparency is important in demonstrating results and maintaining taxpayers' trust. In the past year, we continued to enhance our internal financial controls and our governance structure.

Certify the effectiveness of internal controls

In 2011-2012, we devoted significant effort to making sure we have a strong system of controls over our financial management and reporting.

- We implemented our chief executive officer (CEO) and chief financial officer (CFO) certification process to help ensure that our internal controls and financial reporting are accurate and reliable.

¹ Implementation of the HST in Ontario resulted in permanent employees from that province being offered employment at the CRA.

- We completed a risk assessment exercise to identify and address significant enterprise risks.
- Our CEO and CFO signed our first annual Statement of Management Responsibility and annex, including internal controls over financial reporting.
- We issued a detailed report, audited by the Office of the Auditor General of Canada, to the provinces and territories on the design of controls over financial reporting on the individual income tax program.
- We completed an assessment of the operating effectiveness of controls over financial reporting for our corporate income tax program.

Implement the emergency management program strategy

In 2011-2012, we enhanced our emergency management practices and governance structure in line with the *Emergency Management Act* and the Federal Policy for Emergency Management. These enhancements will improve our resilience in the event of an emergency.

Improving security

Security and the protection of information are of utmost importance to the CRA.

In 2011-2012, we:

- adopted a risk-based approach to ensure that highest priorities receive our greatest attention;
- implemented the first phase, and launched the second and third phases, of our Identity and Access Management project. The project focuses on enhancing how we verify identity and provide access privileges only to authorized users, and only to the extent needed to perform their duties;
- continued to modernize our national audit trail system to proactively monitor employees' access to CRA systems and detect questionable transactions; and
- increased the resources allocated to our security and internal affairs function to further strengthen our ability to prevent, detect, and manage breaches of integrity.

Advance the internal fraud control program

To advance our Internal Fraud Control Program, we:

- updated and communicated our Internal Fraud Control Policy;
- developed a strategy for managing the risk of internal fraud to strengthen and formalize our current practices; and
- developed a method of assessing internal fraud risk to better understand potential vulnerabilities, and to assess and improve the effectiveness of our existing internal controls to lessen the risks.

Employ enterprise risk management consistently and systematically

The CRA incorporates risk management into its decision-making, planning, and reporting processes. Our risks focus on five primary themes:

- protecting the revenue base;
- maintain public trust;
- enablers: resources, systems, and processes;
- ability to move forward and evolve; and
- capitalizing on information and knowledge.

In 2011-2012, we introduced our Corporate Risk Profile, which combined three enterprise risk reports into one. The new comprehensive 2011 risk profile includes all information about our enterprise risks including action plans for risks requiring mitigation.

We also strengthened internal partnerships and integrated the risk management function into key corporate processes. Results include:

- mapping our risk profile to the priorities presented in our Corporate Business Plan and program activity architecture;
- integrating risk information and risk management practices into our investment planning and management processes; and
- encouraging continued coordination and information-sharing between our risk and audit functions.

Risk and performance reporting was improved this past year by developing risk snapshots and including them in our risk profile. Risk snapshots provide a concise and complete overview of each risk and are used to monitor and report on risks and their mitigation plans.

Contribution to the federal sustainable development strategy

We tabled our fifth Sustainable Development Strategy through the CRA *2011-2012 Report on Plans and Priorities*. The strategy will ensure that we continue to achieve targets set in the federal sustainable development strategy.

Over the past year:

- We reduced office paper use per employee by an additional 19%, surpassing our internal paper reduction target of 28% from 2005-2006 levels.
- We implemented a national initiative to reduce the number of printing units and achieved a 6:1 average ratio of employees to printing units.
- We achieved 10.5% green procurement for goods and services and reached a 97% level of procurement officers trained in green procurement.
- We developed a national plan for sound and secure disposal of surplus electronic and electrical equipment.



Theme IV

Shrinking the Environmental Footprint
Beginning with Government

Program Activity 7: Internal Services

The CRA is a participant in the Federal Sustainable Development Strategy (FSDS) and contributes to the Greening Government Operations targets through the Internal Services program activity. The department contributes to the following target areas of Theme IV (Shrinking the Environmental Footprint – Beginning with Government) of the FSDS:

- Greenhouse gas emissions
- Electronic waste
- Managed print
- Internal paper consumption
- Green meeting guide
- Green procurement

For additional details on the CRA's Greening Government Operations activities, please see the List of Supplementary Information Tables in Section III on page 53.

Management oversight

To make sure that we are effectively meeting our responsibilities for accountability, we use two complementary tools: the Management Accountability Framework assessment conducted by the Treasury Board of Canada Secretariat and the Board of Management Oversight Framework assessment conducted by our Board of Management. Together, the two assessment tools provide a complete evaluation of the CRA's management performance.

The 2011-2012 Management Accountability Framework assessment examined three indicators. The CRA received "strong" ratings for one indicator and "acceptable" for the other two. Our Board of Management conducted its fifth Board of Management assessment. Of the 14 indicators considered, none required attention, two presented an opportunity for improvement, and twelve were found to be "strong" or "acceptable".

The positive results of these assessments provide Canadians with assurance that the CRA is actively pursuing management excellence.

Lessons learned

The CRA is a large and mature organization operating in a complex socio-economic context. In the past year, we continued to develop innovative management practices and sound infrastructure. We are confident, based on internal and external assessments and our demonstrated achievements, that we met our objective of enabled core business operations and delivered on our management priorities.

For supplementary information on this program activity, please visit:

www.cra.gc.ca/annualreport

Changes to government structure

On August 4, 2011, Shared Services Canada was established as a department and as a result, was transferred control and supervision of certain portions of the federal public administration related to information technology infrastructures services.

Impacts on financial and human resources resulting from the establishment of Shared Services Canada.

2011-2012 financial resources (millions of dollars)

	Planned Spending	Total Authorities ¹
Net transfer post Orders in council to Shared Services Canada ²	\$60.6	\$72.3

¹ Pursuant to section 31.1 of the *Financial Administration Act* and Orders in Council P.C. 2011-0881, P.C. 2011-0877 and P.C. 2011-1297, this amount was deemed to have been appropriated to Shared Services Canada, which resulted in a reduction in the appropriation for Canada Revenue Agency.

² Total authorities, as presented in the "2011-2012 financial resources" table (and other relevant tables) in the "Summary of performance" section, is the net of any transfers to Shared Services Canada. Actual spending does not include expenditures incurred on behalf of Shared Services Canada as of the Order in council date.

2011-2012 human resources (full-time equivalents)

	Planned	Actual
Deemed to Shared Services Canada	257	257

Economic Action Plan initiatives

In 2011-2012, the CRA was provided with \$2.4 million in economic action plan funding to administer the Home renovation tax credit and First-time home buyers tax credit and also for the late filing and incorrect format penalties initiative. These supplementary funds enabled the CRA to respond to increased workload volumes created by these initiatives.

(in millions of dollars)	2011-2012
Home Renovation Tax Credit	0.7
First-Time Home Buyers Tax Credit	0.7
Late filing and Incorrect Format Penalties	1.0
Total (includes Employees Benefit Plans)	2.4

(in millions of dollars)	2009-2010	2010-2011	2011-2012
Main Estimates	4,388.0	4,476.4	4,293.0
Planned Spending	4,388.0	4,523.5	4,293.8
Total Authorities ¹	4,586.2	4,596.7	4,610.1
Actual Spending ¹	4,406.5	4,418.6	4,351.3
Canada's Economic Action Plan	12.0	9.6	2.4

¹ Excludes amount deemed appropriated to Shared Services Canada in 2011-2012.

SECTION III: SUPPLEMENTARY INFORMATION

Statement of Management Responsibility Including Internal Control over Financial Reporting

We have prepared the accompanying financial statements of the Canada Revenue Agency (CRA) according to accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. Significant accounting policies are set out in note 2 to the financial statements. Some of the information included in the financial statements, such as accruals and the allowance for doubtful accounts, is based on management's best estimates and judgment, with due consideration to materiality. The CRA's management is responsible for the integrity and objectivity of data in these financial statements. Financial information submitted to the Public Accounts of Canada and included in the CRA's Annual Report, is consistent with these financial statements.

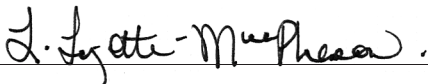
To fulfill its accounting and reporting responsibilities, management maintains sets of accounts which provide records of the CRA's financial transactions. Management also maintains financial management and an effective system of internal control over financial reporting (ICFR) that take into account costs, benefits, and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament, and by others such as provinces and territories, are executed in accordance with prescribed regulations and the *Financial Administration Act*, and are properly recorded to maintain the accountability of funds and safeguarding of assets.

Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The CRA 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, by communication programs aimed at ensuring that its regulations, policies, standards, and managerial authorities are understood throughout the organization, and by conducting an annual assessment of the effectiveness of its system of ICFR. An assessment for the year ended March 31, 2012 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

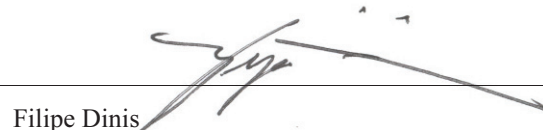
The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments. The effectiveness and adequacy of the CRA's financial management and its system of internal control are reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the CRA's operations, and by the Board of Management, which is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board of Management. To assure objectivity and freedom from bias, these financial statements have been reviewed by the Audit Committee and approved by the Board of Management. The Audit Committee is independent of management and meets with management, the internal auditors, and the Auditor General of Canada on a regular basis. The auditors have full and free access to the Audit Committee.

The Auditor General of Canada conducts independent audits and expresses separate opinions on the accompanying financial statements which do not include an audit opinion on the annual assessment of the effectiveness of the CRA's internal controls over financial reporting.

Approved by:



Linda Lizotte-MacPherson
Commissioner and Chief Executive Officer



Filipe Dinis
Chief Financial Officer and Assistant Commissioner,
Finance and Administration

Ottawa, Ontario
August 28, 2012

Financial performance information – parliamentary appropriations

Introduction

This section of the Canada Revenue Agency (CRA) *Departmental Performance Report 2011-2012* provides the details of the CRA's resource management performance for the purpose of reporting to Parliament on the use of appropriations in 2011-2012. This complements the information provided in the spending profile sections under each program activity and satisfies the reporting requirements set for departmental performance reports.

Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and, in this section, the CRA reports its expenditures and performance to Parliament, together with details on the management of Parliamentary appropriations on the same basis. In addition to the above reporting requirements, the CRA is also required to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the audited Statement of operations - Agency activities on page 82 in the *Annual Report to Parliament 2011-2012* includes certain items such as services received without charge from other government departments and federal agencies. A reconciliation can be found in Note 3 on page 87 in the *Annual Report to Parliament 2011-2012*.

The CRA is participating in a Treasury Board of Canada Secretariat pilot project to extend accrual accounting to the budgeting and appropriations process. As required by the pilot project, CRA prepared and included future-oriented financial statements in the *2011-2012 Report on Plans and Priorities*. This future-oriented financial information was prepared on an accrual basis to strengthen accountability and improve transparency and financial management. As part of the analysis of net cost of operations, this Departmental Performance Report compares actual results to the initial future-oriented financial statements contained in the *2011-2012 Report on Plans and Priorities*.

CRA financial information

Activities of the Canada Revenue Agency

Canada Revenue Agency	2011-2012
	(in thousands of dollars)
Main Estimates ¹	4,293,046
Planned Spending ²	4,293,803
Total Authorities ³	4,610,141
Actual Spending	4,351,292

¹ Spending authorized by Parliament at the beginning of the fiscal year.

² Main Estimates authorities plus other amounts anticipated to be authorized during the fiscal year.

³ Total spending authorized by Parliament during the fiscal year.

The Financial Statements - Agency Activities reports \$3,913.6 million as total Parliamentary appropriations used (Note 3 on page 90 shows the reconciliation to the net cost of operations in the *2011-2012 Annual Report to Parliament*). The difference from the \$4,351.3 million reported in this section is explained by the following three items reported in the Financial Statements - Administered Activities: the statutory disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*, \$213.9 million; the Children's Special Allowance payments, \$223.5 million; and other miscellaneous items, \$0.3 million.

Overview

For 2011-2012, Parliament approved \$4,293.0 million through the Main Estimates, as shown in the CRA's *2011-2012 Report on Plans and Priorities*.

The 2011-2012 Main Estimates were adjusted to include:

- \$178.0 million for the carryforward from 2010-2011;
- \$101.4 million for maternity and severance payments;
- \$73.9 million for increased disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*;
- \$19.1 million for the implementation of various tax measures announced in the 2011 Federal Budget;
- \$14.8 million for increased Respendable Revenue mainly to provide services to the Canada Border Services Agency;
- \$6.2 million to begin the upgrade of the personal income tax processing system;
- \$1.5 million for Court Awards and Crown Assets Disposal;
- \$1.0 million for increased Government advertising campaigns; and
- \$0.3 million due to other miscellaneous items.

These increases were offset by the following reductions:

- \$72.3 million for the transfer to Shared Services Canada of email, data centre and network responsibilities;
- \$3.5 million for decreased statutory Children's Special Allowance payments;
- \$3.2 million for decreased employee benefits plan costs; and
- \$0.1 million transferred to the Treasury Board Secretariat to support the National Managers' Community.

This resulted in total approved authorities of \$4,610.1 million for 2011-2012, representing an in-year increase of 7.4% over the Main Estimates.

Of the \$4,610.1 million total authority, CRA's actual spending totalled \$4,351.3 million resulting in \$258.8 million remaining unexpended at year-end. After deducting unused resources related to Government advertising campaigns and a frozen allotment for the Foreign Investment Entities and Non-Resident Trusts legislative initiative which has not yet received Royal Assent, the remaining \$248.3 million is available for use by the CRA in 2012-2013 under its statutory two-year spending authority. This amount represents 5.4% of the total authority.

The CRA's two-year spending authority enables the CRA to be more strategic in its use of public funds by taking a multi-year view of plans and budgets. The financial flexibility in 2011-2012 was somewhat higher than usual due to restraint measures introduced by the CRA during the latter half of the fiscal year in response to the Operating Budget freeze implemented by the Government in Budget 2010. This increased carryforward was part of the CRA's strategy to address unfunded operating pressures in 2012-2013, including previously approved salary increases for employees.

Revenues administered by the Canada Revenue Agency

Total revenues administered by the CRA amount to some \$332.0 billion in 2011-2012, an increase of 6.6% from the \$311.3 billion administered in 2010-2011.

(in thousands of dollars)	2011-2012	2010-2011
Federal government	198,323,243	191,023,845
Provincial, territorial governments and First Nations	94,609,448	83,085,151
Canada Pension Plan	39,026,598	37,177,356
Total	331,959,289	311,286,352

Capacity to deliver services

The CRA's workforce of over 40,000 employees is fundamental to the achievement of its mandate. In the course of 2011-2012, this workforce was comprised on average of 83% permanent employees, 16% term employees and 1% students.

The CRA's employees are located throughout Canada, in the following operational regions: Ontario (32%), Headquarters (21%), Prairies (15%); Québec (12%); Pacific (12%) and Atlantic (8%). They provide services to taxpayers in over 40 tax services offices and tax centers, as well as program services and internal services supporting those programs.

The CRA's information technology (IT) capacity is also critical to its ability to deliver services to Canadians. This is a sizeable task which requires the involvement of two data centres which process up to 4 million transactions per hour, 7 mainframe computers, about 1,700 servers, and the maintenance of over 495 applications across a distributed computing environment covering more than 400 locations. As explained below, effective November 15, 2011, IT infrastructure services related to email, data centres and network services are provided through Shared Services Canada in partnership with the CRA.

Financial highlights

Four developments have significantly influenced the 2011-2012 results in the financial statements.

1. Shared Services Canada

In fiscal year 2011-2012, the Government of Canada announced the creation of Shared Services Canada, a new organization with a mandate to establish a government-wide approach to managing the delivery of information technology infrastructure services. In light of Shared Services Canada's responsibilities, the CRA transferred to Shared Services Canada the control and supervision of operational domains related to email, data centres and network services.

By Order-in-Council, effective November 15, 2011, \$72.3 million in CRA resources were deemed appropriated to Shared Services Canada for 2011-2012. The deemed appropriations included \$11.7 million in planned carry forwards required by Shared Services Canada to meet existing contractual agreements in 2012-2013.

The cost of IT activities that were transferred to Shared Services Canada continues to be fully reflected in the financial statements as professional services received without charge (refer to Note 10 of the Annual Report to Parliament - Financial Statements - Agency Activities).

The CRA worked closely with the Treasury Board Secretariat, the Receiver General and Shared Services Canada to ensure that accounting and reporting requirements were met for the deemed appropriations and associated expenditures.

2. Collective Bargaining

As part of the 2010 Federal Budget, the Government announced a freeze on the operating budgets of departments and agencies up to and including 2012-2013. As a result, no incremental central funding is being provided to organizations for the cost of wage increases that take effect between April 1, 2010 and March 31, 2013.

In fiscal year 2011-2012, the funding shortfall associated with these wage increases amounted to approximately \$48.0 million. The CRA managed this operating pressure with internal funding from general administrative and program efficiencies identified through a targeted program spending review.

3. CRA's Financial Management

The CRA employs a multi-year resource management strategy by utilizing its two-year spending authority to better position itself in future years to address known pressures and / or respond quickly to unforeseen and extraordinary operating pressures. In 2011-2012 the total appropriations available for future years was \$248.3 million. While this was higher than prior years, it was due in large part to plans to re-profile funds to 2012-2013 in order to mitigate the impacts of the operating budget freeze.

As part of its resource management strategy, the CRA continuously reviews and revises plans and priorities to ensure the effective use of government resources and the achievement of our core business outcomes. In 2011-2012, the majority of key performance targets were met or exceeded.

4. Provincial Sales Tax Administration Reform

On July 1, 2010, the CRA implemented the harmonized sales tax (HST) in the provinces of Ontario and British Columbia. The CRA received funding in 2011-2012 of \$137.8 million (including employee benefit plan contributions and accommodation charges) for the continued implementation and administration of the HST in both provinces. This funding was used to transition affected provincial employees to the CRA, identify and address risk of HST non-compliance, and administer province-specific HST flexibilities in Ontario and British Columbia. Since that time, the province of British Columbia has confirmed it will return to the provincial sales tax model effective April 1, 2013. In addition, on April 18, 2012, the province of Prince Edward Island announced that it will transition to the HST effective April 1, 2013. Adjustments to the CRA funding associated with these announcements will be reflected in future years, as necessary.

Discussion and analysis

Analysis of net cost of operations

Condensed Statement of Operations and CRA Net Financial Position (Unaudited)

As at March 31, 2012 (in thousands of dollars)

	% change in Actual Results	2011-2012	2010-2011	Future-oriented 2012
Total expenses	3.3%	4,758,441	4,605,580	4,682,265
Total non-tax revenues	1.6%	559,640	550,607	606,734
Net cost of operations before government funding and transfers	3.5%	4,198,801	4,054,973	4,075,531
CRA net financial position	97.7%	544,535	275,386	281,969

Actual net cost of operations

The CRA's 2011-2012 net cost of operations amounted to \$4,198.8 million, increasing by \$143.8 million from the \$4,055.0 million net cost of operations in 2010-2011.

Details of the net cost of operations are illustrated below (see Note 8 of the Financial Statements - Agency Activities for a further breakdown of expenses by category):

Details on the net cost of operations (Unaudited)

As of March 31, 2012 (in thousands of dollars)

	2011-2012	2010-2011	Difference
Personnel	3,519,130	3,409,331	109,799
Accommodation	344,894	327,413	17,481
IT equipment and services	323,597	270,567	53,031
Transportation and communications	160,653	194,861	(34,208)
Professional and business services excluding IT	155,493	160,252	(4,759)
Federal sales tax administration costs – Province of Québec	141,067	142,179	(1,112)
Other	113,607	100,977	12,629
Total expenses	4,758,441	4,605,580	152,861
Less: Non-tax revenue	559,640	550,607	9,033
Net cost of operations	4,198,801	4,054,973	143,828

The CRA's expenses are comprised of 74% personnel expenses (salaries, other allowances and benefits) and 26% non-personnel expenses.

Personnel expenses are the primary drivers for the CRA. A number of significant factors contributed to the increase of \$109.8 million for these expenses in 2011-2012: annual economic salary increases pursuant to collective agreement provisions; the increase in the actuarial rate used to calculate severance benefits; termination benefits related to workforce adjustments resulting from the CRA's ongoing transformation. These increases were partially offset by salaries and benefits transferred to Shared Services Canada.

A significant portion of non-personnel expenses relates to accommodation and IT equipment and services. The net increase of \$43.1 million in non-personnel expenses in 2011-2012 is mainly attributable to greater expenses relating to accommodations, as well as IT related expenses, and reflects an offset related to a decrease in transportation and communications costs.

Forecasted net cost of operations

The CRA's net cost of operations for 2011-2012 was \$123.3 million more than was anticipated in the future-oriented financial statements included in the 2011-2012 RPP (\$4,198.8 million - \$4,075.5 million). This represents a 3.0% variance and is explained as follows:

- The future-oriented financial statements were prepared based on Parliamentary appropriations received as of the 2011-2012 Main Estimates and did not consider expenditures as a result of resources received for the remainder of the year for such items as:
 - Carryforward amounts from 2010-2011;
 - Funding related to measures arising from Budget 2011;
 - Funding adjustments for spendable revenue; and
 - An offsetting adjustment for the transfer of email, data centre and network responsibilities to Shared Services Canada.
- A change in accounting treatment for non spendable non-tax revenues, which are now presented in reduction of the CRA's gross revenues in the Statement of Operations and Agency Net Financial Position.
- Other explanations for the variance relate to accrual adjustments mainly for asset acquisitions and the related amortization, and personnel related costs such as severance liability.

Financial position

Condensed Statement of Financial Position (Unaudited)

As of March 31, 2012 (in thousands of dollars)

	2011-2012	2010-2011	Difference
Liabilities	1,145,734	1,068,003	77,731
Financial assets	184,310	231,206	(46,896)
CRA net debt	961,424	836,797	124,627
Non-financial assets	416,889	561,411	(144,522)
CRA net financial position	544,535	275,386	269,149

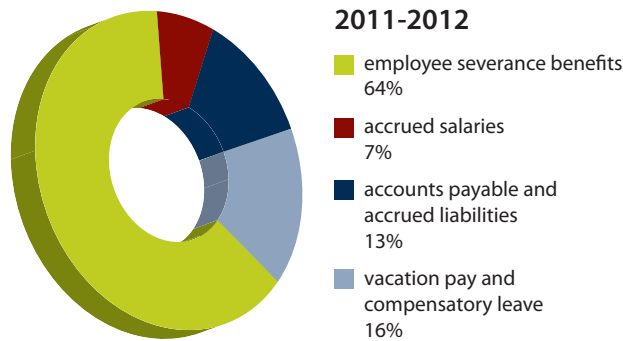
The increase in the Agency net financial position is attributable to both an increase in the liabilities due to employee severance benefits as explained below and to a decrease in financial and non-financial assets due in part to the transfer of assets to Shared Services Canada.

Liabilities

Liabilities increased by \$77.7 million in 2011-2012. A significant part of this increase is attributable to changes in the economic assumptions used to estimate the actuarial present value as at March 31 of the expected future employee severance benefit payments.

Employee severance benefits are the CRA's most significant liability, as illustrated in the table below.

Figure 1 Liabilities by category



In the course of 2011-2012, conditions of employment for certain employee groups within the CRA were modified so that their employee severance benefits would cease to accrue. The employees concerned were given the option to be paid their accrued severance benefits as at the effective date of the new terms of employment. These modifications that were also introduced for other employee groups in the following fiscal year are expected to reduce the CRA's employee severance benefits liability in the coming and future years.

Non-financial assets

Non-financial assets are comprised of 97% tangible capital assets. The CRA managed a capital budget of \$89.0 million for the year 2011-2012, of which \$9.4 million was deemed appropriated to Shared Services Canada and \$28.0 million remains available for use in future years in accordance with the CRA's multi-year resource management strategy.

The vast majority of tangible capital assets owned by the CRA relates to IT. A substantial portion of CRA's costs related to IT equipment was transferred to Shared Services Canada during the year as part of the Government's effort to streamline the delivery of email, data centre, network and telephony services across the Public Service.

Software remains the most significant type of tangible capital asset required by the CRA to deliver its mandate. As a large organisation responsible for delivering an extensive range of tax and benefits programs on behalf of the federal and of provincial governments, the CRA has specialized software needs that are primarily fulfilled internally through the development of in-house tailored applications by the CRA employees. During the year, the CRA invested \$39.8 million in capital expenditures to develop customized software that will allow it to continue to administer and enforce tax legislation efficiently.

Risk

Risk management plays a key role in supporting sound financial management as it allows the CRA to protect its assets and reinforces a strong sense of prioritization in investment decisions. At the CRA, the Enterprise Risk Management (ERM) Branch supports the effective management of resources in multiple ways. Firstly, as a member of the committee overseeing investment projects above \$1 million, the Chief Risk Officer and Assistant Commissioner of the ERM Branch brings a risk perspective to the committee's review activities. Secondly, all projects brought to the committee require a formal attestation from the ERM Branch that the CRA structured risk management process was followed and that sound risk information forms part of the submission. The attestation process takes place at various project development stages. Lastly, enterprise risk information is used to inform the development of the CRA Strategic Investment Plan (SIP); a long-term plan for significant future

investments. More specifically, project alignment with the priorities outlined in the Corporate Risk Profile is one of the considerations used to inform the priority ranking of initiatives.

For further details on ERM at the CRA, please see the Enabling core business operations section of the annual report.

Outlook

The CRA continues to modernize its operations and reduce red tape to enhance services to Canadians while reducing its overall costs. It is increasingly providing services electronically to make it easier for Canadians and businesses to interact with the CRA at the lowest possible cost. By simplifying the way it collects taxes and distributes benefit payments, the CRA will ensure Canadians and small and medium-sized enterprises receive the benefits and credits to which they are entitled as efficiently and quickly as possible.

List of supplementary information tables

All electronic supplementary information tables found in the *2011-2012 Departmental Performance Report* can be found on the CRA website at: www.cra-arc.gc.ca/gncy/prfrmnc_rprts/menu-eng.html.

- Sources of Respendable and Non-Respendable Non-Tax Revenue
- User fees reporting
- Status report on projects operating with specific Treasury Board approval
- Details on transfer payment programs
- Greening government operations
- Response to parliamentary committees and external audits
- Internal audits and evaluations

Financial statements

CRA financial statements can be found on the CRA website at: www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html.

SECTION IV: OTHER ITEMS OF INTEREST

Canada Revenue Agency

Appropriate Minister

The Honourable Gail Shea, P.C., M.P. Minister of National Revenue

Institutional Head

Linda Lizotte-MacPherson, Commissioner and Chief Executive Officer

Constituent Act

Canada Revenue Agency Act, [1999, c. 17]

Year of Incorporation/Commencement

1999

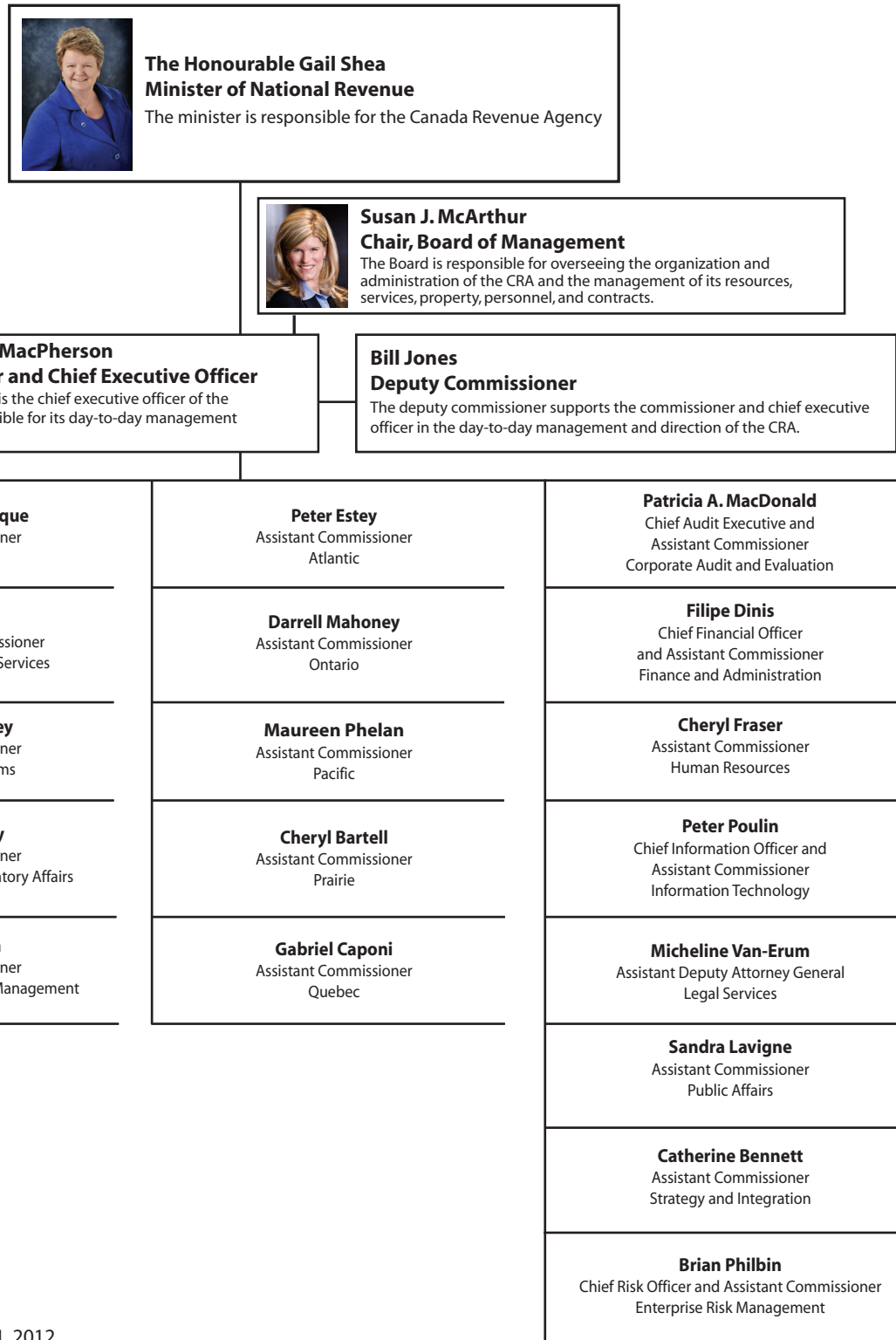
Mandate

The Canada Revenue Agency (CRA) is responsible for: supporting the administration and enforcement of program legislation; implementing agreements between the Government of Canada and the government of a province, territory, or other public body performing a function of government in Canada; implementing agreements or arrangements between the CRA and departments or other agencies of the Government of Canada; and implementing agreements between the Government of Canada and First Nations governments to administer a tax.

Head Office

Connaught Building
555 MacKenzie Avenue, 7th floor
Ottawa ON K1A 0L5
Telephone: 613-957-3688
Fax: 613-952-1547
Website: www.cra-arc.gc.ca

Organizational structure



As of March 31, 2012

Rating our results

We use both qualitative and quantitative measures or indicators, to assess our success in producing the results that we expect from achieving our objectives. We gather operational data, statistical samples, and survey results that form the basis of our assessments. Our targets identify the percentage or degree we expect to attain for a performance level. Our management teams establish performance targets by analyzing affordability constraints, historical performance, the complexity of the work involved, and the expectations of Canadians. We rate our results in terms of whether the targets identified in our *2011-2012 Report on Plans and Priorities*.

RATING OUR RESULTS		
Performance ratings	We use qualitative and quantitative measures, or indicators, to assess our success in achieving our objectives. We gather operational data, statistical samples, and survey results that form the basis of our assessments. The targets we set identify the percentage or degree we expect to attain for a performance level. We establish performance targets by analyzing affordability, historical performance, the complexity of the work involved, and the expectations of Canadians.	Our performance ratings fall into one of three categories: Met – Our results met or exceeded our expectations. Mostly met – While the results met most of our expectations, some gaps exist. Not met – Significant gaps exist in results and most or key expectations were not met.
Data quality ratings	We look internally and externally to identify and exchange best practices in reporting and rating results. We share information with other tax administrations on measuring results through various international forums. The CRA also participates in designed to benchmark key aspects of tax management with jurisdictions around the world.	Our data quality ratings fall into one of three categories: Good – Data is supported by accurate information obtained from reliable sources or methods. Reasonable – Data is supported, in most cases, by accurate information obtained from reliable sources or methods. Weak – There are significant gaps in how information is obtained.

Service standards in the CRA

Maintaining the confidence of Canadians in the integrity of the tax system is essential to the success of the CRA. Service standards that are reasonable and consistently met contribute to increasing the level of confidence that Canadians place in government. Our service standards publicly state the level of performance that citizens can reasonably expect to encounter from the CRA under normal circumstances. We set targets that state the percentage of time or level of accuracy that we expect to attain for the established standard. Targets represent the percentage or degree of improvement we expect to attain, based on operational realities such as resource availability, infrastructure, historical performance, the public's expectations, and the complexity of the work. Our standards and targets are reviewed annually and updated, as necessary.

For more information on CRA's service standards, please visit: <http://www.cra-arc.gc.ca/gncy/stndrds/menu-eng.html>

Enterprise risks mapped to program activities in support of strategic outcomes

	Taxpayer and business assistance (PA1)	Assessment of returns and payment processing (PA2)	Accounts receivables and returns compliance (PA3)	Reporting compliance (PA4)	Appeals (PA5)	Benefit programs (PA6)	Internal services (PA7)
Strategic planning							*
Governance structure and processes							*
Integration and horizontality							*
Organizational responsiveness and agility							*
Public image	*	*	*	*	*	*	
Business intelligence and performance measurement							*
Optimizing the agency status							*
Underground economy			*	*			
Aggressive tax planning		*	*	*			
Reporting non-compliance		*	*	*			
Payment non-compliance		*	*				
Objections					*		
Benefit services	*					*	
Financial capacity							*
Project delivery							*
Procurement							*
Business continuity							*
Information management							*
Protection of information							*
Regional capacity and flexibility							*
Human resource capacity and capability							*
Employee ethical conduct							*
Workplace health and safety							*
Labour relations							*
Internal communication							*
Public communication	*	*	*	*		*	
Taxpayer relationship management	*	*	*	*	*		

	Taxpayer and business assistance (PA1)	Assessment of returns and payment processing (PA2)	Accounts receivables and returns compliance (PA3)	Reporting compliance (PA4)	Appeals (PA5)	Benefit programs (PA6)	Internal services (PA7)
Federal, provincial, territorial and international relationship management	*	*	*	*	*	*	
Knowledge management							*
Information technology sustainability							*
Business and information technology alignment							*

Summary of the assessment of effectiveness of the systems of internal control over financial reporting and the action plan of the Canada Revenue Agency

Fiscal year 2011-2012

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting.

Note to the reader

In accordance with the Treasury Board Policy on Internal Control, departments and agencies are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments and agencies are expected to conduct annual assessments of their system of ICFR, establish action plans to address any necessary adjustments, and attach to their Statements of Management Responsibility a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud, and mismanagement; and
- applicable laws, regulations, and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, but rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process of identifying key risks, assessing the effectiveness of associated key controls and adjusting them as required, as well as monitoring the system in support of continuous improvement. As a result, the scope, pace, and status of departmental and agency assessments of the effectiveness of their systems of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

The annual assessment of ICFR contemplated in the Treasury Board Policy on Internal Control is intended to be a management self-assessment led and administered by the Chief Financial Officer and supported by senior management. However, key

external audit findings and results can contribute to this self-assessment. In the case of the CRA, federal-provincial tax collection agreements contain an audit provision requiring the Auditor General to periodically perform a review of the CRA's internal controls relevant to the financial information provided under the agreements, and to report the results to provincial and territorial finance Ministers. To fulfill these requirements, the Office of the Auditor General periodically audits those aspects of the CRA's self-assessment of ICFR that are relevant to the tax collection agreements. The portion of CRA's ICFR that is subject to audit under the agreements and the results of the control audits performed recently by the Office of the Auditor General are described in Sections 3 and 4 of the Annex.

1. Introduction

This document is part of the CRA's Statement of Management Responsibility Including Internal Control over Financial Reporting for the fiscal year 2011-2012. As required by the Treasury Board Policy on Internal Control, this document provides summary information on the measures taken by the CRA to maintain an effective system of ICFR. In particular, it provides summary information as of March 31, 2012 on the assessments the CRA conducted including progress, results, and related action plans. Some financial highlights pertinent to understanding the CRA's unique control environment are also provided.

1.1 Authority, mandate, and program activities

The CRA's mandate is based on a framework of complex laws enacted by Parliament and by provincial and territorial legislatures. To fulfill its mandate, the CRA administers a range of taxes, benefits, and related programs aimed at ensuring that taxpayers meet their obligations and receive their entitlements, and at protecting Canada's tax base. For more detailed information on the CRA's authority, mandate, and activities, refer to the Annual Report to Parliament on the CRA website at <http://www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html> or to the Report on Plans and Priorities on the CRA website at http://www.cra-arc.gc.ca/gncy/prfrmnc_rpts/menu-eng.html.

1.2 Financial highlights

The CRA's key results for fiscal year 2011-2012 are as follows:

Canada Revenue Agency activities

- Total expenses of \$4,758 million, 74% of which is personnel expenses.
- Total assets of \$601 million and liabilities of \$1,146 million. Capital assets comprise 67% of the CRA's total assets. Employee severance benefits comprise about 64% of total liabilities and accounts payable, and accrued liabilities comprise about 13%.

Administered activities

- Total administered revenues of about \$331 billion, composed of \$198 billion in revenue administered under tax and other related federal legislation on behalf of the Government of Canada, \$94 billion in revenue administered on behalf of provincial, territorial, and First Nations governments under various Memoranda of Understanding and similar arrangements, and \$39 billion in revenue administered on behalf of the Canada Pension Plan.
- Total payments of about \$20.8 billion in benefits and credits administered under benefit programs and services on behalf of the Government of Canada and provincial and territorial governments.

The CRA's information technology (IT) capacity is also critical to its ability to deliver services to Canadians. This is a sizeable task which requires the involvement of two data centres which process up to 4 million transactions per hour, 7 mainframe computers, about 1,700 servers, and maintaining over 495 applications across a distributed computing environment covering more than 400 locations. Effective November 15, 2011, IT infrastructures services related to email, data centres and network services are provided through Shared Services Canada in partnership with the CRA.

The CRA's Finance and Administration Branch supports the delivery of CRA programs and services by providing sound advice, products, and services related to a number of key functions including financial administration, resource management,

security, internal affairs, and administration. It also helps ensure compliance and accountability with related legislation, policies, and directives. Finance and Administration Branch activities are performed by a team of almost 2,500 employees, about 35% of whom are located in Headquarters and 65% in the regions. This team is integral to the effectiveness of the CRA's system of control over financial reporting, which encompasses two sets of financial statements: one for agency activities and one for administered activities. Also of importance to financial reporting, in particular to administered activities, are many of the procedures carried out as part of regional or Headquarters operations, such as collection, data entry, and processing of income tax returns, as well as support and development of a majority of the system applications the CRA uses. This makes the CRA's task of scoping, documenting, and assessing the related controls uniquely challenging.

1.3 Audited financial statements

As noted above, for financial reporting purposes, the activities of the CRA have been divided into two sets of financial statements: agency activities and administered activities. The Financial Statements - Agency Activities include those operational revenues and expenses that the CRA manages and utilizes in running the organization. The Financial Statements - Administered Activities include those revenues and expenses that are administered for someone other than the CRA, such as the federal, provincial and territorial governments, First Nations and other organizations.

The CRA has issued annual audited financial statements since 1999-2000 and has consistently received an unmodified opinion from the Auditor General of Canada.

1.4 Service arrangements relevant to financial statements

1.4.1 CRA reliance on other government service providers

The CRA relies on other organizations for the processing of certain transactions that are recorded in its financial statements.

Common arrangements

- Public Works and Government Services Canada centrally administers salary payments and looks after items such as the calculation of general pay, payroll deductions, security of pay information, and automatic retroactive adjustments through the Regional Pay System.
- The Department of Justice provides legal advisory, litigation, and legislative services.
- The Office of the Auditor General of Canada provides auditing services.
- Shared Services Canada was created on August 4, 2011 to consolidate, streamline and improve the government's information technology (IT) infrastructure services, specifically email, data centre and network services for 43 federal departments and agencies. Effective November 15, 2011 the responsibility for email, data centre and network services, including associated resources, was transferred from the CRA to Shared Services Canada. The administration and delivery of these services were shared during the 2011-2012 transition period while Shared Services Canada was being established.

Specific arrangements

- Revenu Québec is responsible for the joint administration of the goods and services tax and Quebec sales tax for businesses in the Province of Quebec.

1.4.2 CRA services that other departments and agencies rely on

Specific arrangements

- The CRA provides information technology services to the Canada Border Services Agency's operational and financial systems and performs collection services on their behalf for duties, taxes, fees, penalties, or other amounts owing under the *Customs Act*, *Customs Tariff*, *Excise tax Act*, *Excise Act, 2001*, and/or related regulations.
- The CRA provides information to the Department of Finance to use in determining taxes receivable and payable under tax collection agreements with provincial, territorial, and Aboriginal governments.

- The CRA provides services to Human Resources and Skills Development Canada to collect its accounts receivable and to administer a number of activities for the Canadian Pension Plan and Employment Insurance Operating Account.

1.5 Significant changes in fiscal year 2011-2012

- Under agreements reached with the Government of Canada, the CRA started to administer the harmonized sales tax in Ontario and British Columbia on July 1, 2010. On August 26, 2011, British Columbia announced that it will return to the provincial sales tax on April 1, 2013. Until then, the CRA will continue to administer the harmonized sales tax for British Columbia. Shortly after the end of fiscal year 2011-2012, on April 18, 2012, the province of Prince Edward Island announced that it has entered into an agreement with the Government of Canada to bring Prince Edward Island into the harmonized sales tax revenue allocation framework effective April 1, 2013.
- Effective September 5, 2011, Mr. Mark Perlman was appointed to the position of Deputy Assistant Commissioner and Agency Comptroller, Finance and Administration Branch.
- Effective October 3, 2011, Mr. Bill Jones was appointed to the position of Deputy Commissioner of the CRA.
- Effective November 15, 2011, Shared Services Canada is responsible for controlling and supervising the CRA's email, data centre, and network services and has ownership of relevant assets. Since Shared Services Canada came into being, it has been operating with the CRA under a business continuity framework that identifies how work and services were to continue for the remainder of the 2011-2012 fiscal year. This framework is being extended until March 31, 2013, to allow for a sufficient transition period.

2. CRA's control environment relevant to ICFR

The CRA recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining an effective system of ICFR and are well equipped to exercise these responsibilities effectively. The CRA's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key positions, roles, and responsibilities

This section explains the CRA's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Commissioner - The Commissioner and Chief Executive Officer (CEO) of the CRA, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Commissioner chairs the Agency Management Committee, sits on the CRA Board of Management, and attends meetings of the Audit Committee.

Chief Financial Officer - The Chief Financial Officer (CFO) reports directly to the Commissioner and provides leadership for the coordination, coherence, and focus of efforts to design and maintain an effective and integrated system of ICFR, including its annual assessment. In this role, the CFO chairs the CRA's CEO/CFO Certification Steering Committee and attends meetings of the Audit Committee.

CEO/CFO Certification Steering Committee - This Committee is chaired by the CFO and composed of Assistant Commissioners with significant responsibility for ICFR including the Chief Information Officer, the Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, and the Chief Risk Officer. It is responsible for reviewing the progress and results of the CRA's ICFR assessment process and approving action plans to address significant control issues.

Audit Committee of the Board of Management - The Audit Committee helps the Board of Management fulfill its oversight responsibilities by reviewing the CRA's accounting framework, internal and external audit results, financial and performance information, internal controls and financial risks, and compliance with financial and environmental legislation. On the recommendation of the Audit Committee, the Board approves the CRA's annual financial statements. The Commissioner, the CFO, and the Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, as well as a

representative of the Office of the Auditor General, each attend Audit Committee meetings. The Audit Committee was established in 1999 and is composed of five external members who are independent of the CRA.

Agency Management Committee - As the sole decision-making Committee in the CRA, this committee oversees program development and delivery, as well as the day-to-day business operations of the CRA and all associated risks. The Committee reviews, approves, and monitors the corporate risk profile.

Chief Audit Executive - The Chief Audit Executive and Assistant Commissioner, Corporate Audit and Evaluation Branch, reports directly to the Commissioner and provides, through an effective internal audit function, independent and objective assurance on the CRA's risk management, internal control, and governance practices. In this role, the Chief Audit Executive is a member of the CEO/CFO Certification Steering Committee and attends meetings of the Audit Committee.

Chief Risk Officer - The Chief Risk Officer and Assistant Commissioner of the Enterprise Risk Management Branch reports directly to the Commissioner and oversees the CRA's enterprise risk management function designed to provide sound risk information for use in decision-making at the corporate, operational, and project levels.

Internal Controls Division - The Internal Controls Division within the Finance and Administration Branch supports the CRA's efforts to design and maintain an effective and integrated system of ICFR by documenting and testing, in collaboration with information technology and business process control owners, the adequacy of ICFR and reporting results to the CEO/CFO Certification Steering Committee, the Commissioner, and the Audit Committee of the Board. If applicable, the Division also reports information on action plans to strengthen controls.

Senior managers - Senior managers in charge of services and program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

2.2 Key measures taken by the CRA

The CRA also helps to ensure its control environment remains effective in mitigating financial reporting risks by promoting ethical conduct and through upholding its commitment to competence, its governance and organization structure, its enterprise risk management function, and the systems and processes that help ensure relevant information is communicated to appropriate individuals accurately and on a timely basis. Key elements and activities are listed below.

- CRA's Code of Ethics and Conduct.
- Performance management system that formalizes management's commitment to values and ethics.
- An integrity framework composed of policy instruments, programs, and processes designed to reinforce a culture of integrity.
- Competency based human-resources system.
- A dedicated division on internal control.
- An independent and knowledgeable audit committee that is actively involved in overseeing the CRA's ICFR.
- An internal audit function and risk-based audit plan.
- An integrated enterprise risk management function, led by the Chief Risk Officer who reports directly to the Commissioner/CEO.
- A formal information technology strategy that guides information technology sustainability and development.
- The Internal Disclosures Office which provides a confidential channel through which employees can disclose wrongdoing.
- A delegated authorities matrix which is regularly reviewed and updated.
- A formal learning policy and annual individual learning plan process.

3. Assessment of CRA's system of ICFR

The CRA's financial statements have been audited, as required under the *Canada Revenue Agency Act*, by the Office of the Auditor General since 1999-2000. In parallel, the Audit Committee of the Board and CRA senior management have been providing increased oversight of the preparation and presentation of financial information including reviewing information regarding the design and effectiveness of its system of ICFR as they relate to the CRA's administered and agency activities. The objective of these reviews is to obtain greater assurance that significant financial reporting risks are being properly mitigated and our system of ICFRs is being adequately updated, tested and monitored.

In addition to the assessments that are conducted in accordance with the TB Policy on Internal Control, the CRA must also conduct assessments and undergo audits of a portion of its ICFR on Individual (T1), Corporate (T2) and Estate and Trust (T3) income tax programs under provisions outlined in the tax collection agreements between the federal government and the provincial and territorial governments. These assessments are audited by the Office of the Auditor General in accordance with the standards set out in the Canadian Institute of Chartered Accountants Handbook under the Canadian Standard on Assurance Engagements 3416 (formerly Section 5970), the guidance for audits of controls at a service organization. Audit results are reported to provincial and territorial governments to provide independent, audit-level assurance that the controls at the CRA that support the administration and reporting of provincial and territorial income tax revenue are properly designed to mitigate key risks and are operating effectively. The reports are intended to be used by provincial and territorial ministries, and their auditors, and are not public documents. However, the high level results of these audits are included in this document as they related to a key component of the CRA's system of ICFR related to administered activities.

To date the CRA has issued three Section 5970 control reports regarding the design of its ICFRs. The first two related to the T2 program as at March 31, 2007 and November 30, 2008, and the third was for the T1 program as at November 30, 2010. The fourth controls report relates to the operating effectiveness of the T2 program, and is currently being prepared for audit by the Office of the Auditor General during the 2012-2013 fiscal year.

3.1 Assessment baseline

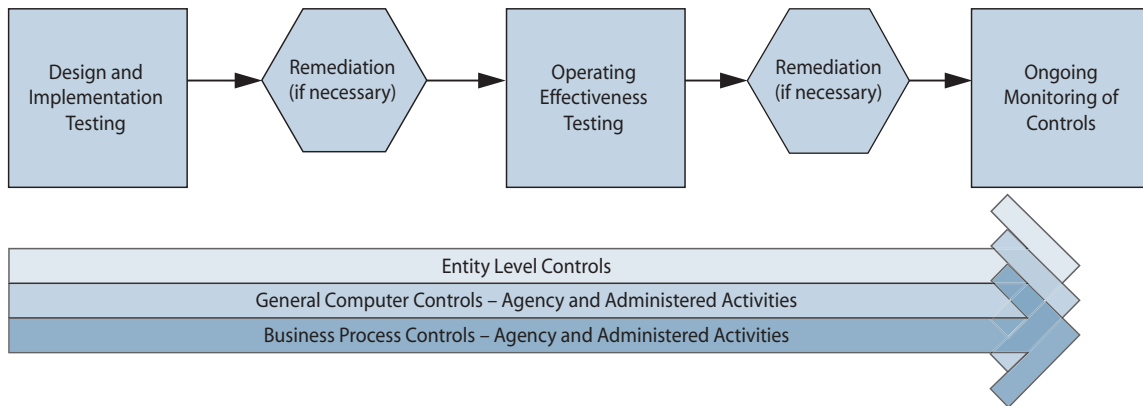
Consistent with the Treasury Board Policy on Internal Control, the CRA has implemented a systematic **risk-based and multi-year assessment** plan of the design and operating effectiveness of its system of ICFR.

Through **design effectiveness**, the CRA will ensure that key controls relevant to financial reporting have been properly identified, documented, and in place and that they are aligned with the risks they aim to mitigate and that any remediation is addressed appropriately and in a timely manner. This includes ensuring appropriate mapping of key processes and information technology systems to the main financial statement accounts or class of transactions.

Through **operating effectiveness**, the CRA will ensure that the application of key controls over financial reporting has been tested over a defined period, they are working as intended and that any required remediation is addressed appropriately and in a timely manner.

Such testing covers all agency level controls which include corporate or entity, general computer and business process controls.

Testing of the design and operating effectiveness of key controls over financial reporting will lead to ensuring the **on-going monitoring** and continuous improvement of the CRA's system of ICFR.



3.2 Scope of CRA assessment as of March 31, 2012

Scope

In order to define the scope of its ICFR assessment, the CRA evaluates the main accounts and line items used in preparing the agency activities and administered activities financial statements to determine where there are risks that, individually or in combination with others, could reasonably result in a material misstatement.

Based on this evaluation, the following key business processes are currently in scope:

Agency activities financial statements

Business Process

- Financial close and reporting
- Fixed assets
- Payroll
- Operating expenditures (procurement to pay)
- Budgeting and projections

Administered activities financial statements

Business Process

- T1 individual income tax (includes unapplied taxes and source deductions)
- T2 corporation income tax
- T3 trust income tax
- Non-resident income tax
- Goods and services tax/harmonized sales tax (GST/HST)
- Excise taxes and duties
- Benefits

Control frameworks

The CRA uses the Committee of Sponsoring Organizations (COSO) framework to assess the design effectiveness of its system of internal controls, since it is the most widely used model of control for purposes of assessing ICFR. The COSO framework is based on five interrelated components of control. Each component contains a number of principles and attributes that an

organization's ICFR may be assessed against: control environment, risk assessment, control activities, information systems and communication, and monitoring.

Because the COSO only provides limited guidance to help organizations establish and evaluate information technology controls, the CRA uses the COBIT (Control Objectives for Information and related Technology) for SOX (Sarbanes-Oxley Act of 2002) framework to document and assess the design of its information technology controls that are relevant to financial reporting.

4. Progress and assessment results as of March 31, 2012

This section summarizes the CRA's key assessment results from the design and operating effectiveness testing completed to date. In accordance with the plan published in the 2010-2011 Annex, the CRA completed the following activities for the 2011-2012 fiscal year.

Agency activities financial reporting

An assessment of the operating effectiveness of key controls over the five business processes related to financial reporting on agency activities as well as relevant application controls and information technology general controls for the Corporate Administrative System, the purchasing system (Synergy), and the budget tracking system.

- As a result of this review, the CRA identified areas for improvement and developed action plans to address findings on key controls related to segregation of duties and the design and management of access profiles.

Administered activities financial reporting

Further to the requirements of the tax collection agreements, the Office of the Auditor General completed its audit of the CRA's description of the design effectiveness of the individual (T1) income tax program as assessed by the CRA as of November 30, 2010. The audit included testing 88 entity level controls, 54 information technology controls over 44 processing systems, and 102 business process activities. The audit results confirmed that the CRA needs to enhance the design of certain key controls in the following areas:

- Documentation: Greater consistency in the quality and availability of documentation for audit trail purposes.
- Information technology general controls: Strengthen controls related to access and change management.
- Segregation of duties: Strengthen access provisioning practices as they relate to segregation of duties, and strengthen business process controls related to the design and management of access profiles.

The CRA's internal audit function completed an assessment of the operating effectiveness of controls related to the corporate (T2) income tax program. Management intends to use the assessment results to identify and plan any adjustments needed to enhance the effectiveness of these controls in preparation for the Auditor General's next controls audit under the tax collection agreements that will be completed in accordance with the Canadian Standard on Assurance Engagements 3416 auditing guidelines.

These reviews, including the Auditor General's report, included entity level control assessments and confirmed that the CRA continues to have a strong system of entity level controls.

5. CRA's action plan

This section summarizes how the CRA is addressing the results of control assessment activities and its plans for completing the assessment of the design and operating effectiveness of its system of internal control.

5.1 Progress as of March 31, 2012

Agency activities financial reporting

In 2011-2012, CRA management substantially advanced its action plans to address the results of its 2010-2011 assessment of the design effectiveness of its controls over agency activities financial reporting, including:

- drafting a policy to clarify and reinforce roles and responsibilities of system owners for the design and management of access profiles, which will be issued in 2012-2013;
- taking measures to improve documentation of review and monitoring activities for audit trail purposes; and
- developing a long-term-strategy to strengthen and automate the management of access provisioning throughout the CRA.

Administered activities financial reporting

In 2011-2012, the CRA addressed a good percentage of the findings from the Auditor General's audit of controls relating to the individual (T1) income tax program and made substantial progress on the following items:

- strengthening procedures for documenting review and monitoring activities related to non-routine assessments and reassessments for audit trail purposes;
- strengthening procedures for managing system changes; and
- clarifying roles and responsibilities to ensure access profiles are properly designed and monitored to address segregation of duty and access issues.

As result of the T1 audit findings, the scope of the long-term strategy for strengthening access management has been expanded in relation to segregation of duties. The strategy aims to standardize the business rules and automate how access profiles are provided and managed throughout the CRA.

Over 85% of the findings raised during the corporate (T2) income tax program design effectiveness audits conducted in 2007 and 2008 have been fully remediated and the remaining issues will be substantially remediated in 2012-2013.

5.2 Action plan for the next fiscal year and subsequent years

Entity level controls

The CRA's assessment efforts to date have revealed that overall the CRA has a strong and effective system of entity level controls that constitutes an important component of the CRA's ICFR for both agency activities and administered activities. Given the significance of entity level controls for the overall assessment of the effectiveness of ICFR, the CRA will continue to monitor them annually based on risk, by conducting self-assessment activities, internal audits, and Office of the Auditor General controls audits, to obtain assurance that they continue to be effective.

Agency activities financial reporting

In 2012-2013, the CRA intends to make significant progress on its action plans to strengthen the operating effectiveness of its controls, and launch a CRA-wide multi-year project to address its access management needs over the long term.

The CRA will move into an ongoing annual ICFR monitoring program that will test items requiring remediation and all new or changed controls, and will perform various other tests based on its annual risk ranking exercise.

Administered activities financial reporting

In 2012-2013, the CRA will prepare a description and management assertion pertaining to the operating effectiveness of its controls over the corporate (T2) income tax program in the context of the tax collection agreements, based on the results of its 2011-2012 self-assessment. The CRA expects that the Office of the Auditor General will audit this description in accordance with the new Canadian Standard on Assurance Engagements 3416. Action plans for assessing the remaining administered activity business processes for the period of 2012-2013 to 2015-2016, as well as the ongoing monitoring of the agency activity controls, are detailed in the table below.

The approach and timing for assessing the operating effectiveness of controls over the T1 program, as well as for assessing both the design and operating effectiveness of the ICFR for the remainder of the CRA's administered activities including IT general controls and application level IT controls, depend on a number of factors, including:

- plans currently under development to redesign the business processes and systems related to the T1 program;
- significant shifts in the CRA's program delivery agenda (e.g., if the CRA assumes responsibility for the implementation and administration of new federal, provincial, territorial, or First Nations tax, benefit, or credit programs);
- developments in the governance model that will apply to Shared Services Canada's providing information technology services on CRA's behalf after the transition period and, in particular, Shared Services Canada's approach to complying with the Policy on Internal Control in assessing general computer controls that are relevant to the CRA and government-wide financial reporting;
- the CRA's plans and progress in implementing business transformation initiatives and other government-wide priorities;
- changes in third-party requirements (including, but not limited to, the Office of the Auditor General, Internal Audit, or Treasury Board); or
- other developments that exert significant pressure on program and information technology staff's time and capacity.

In 2011-2012, CRA management evaluated the level of effort involved in assessing the operating effectiveness of its system of internal control and used this information to establish the next three-year plan, summarized in the following table.

It is important to note that certain variables, including those described in the preceding paragraphs, may affect the CRA's ability to complete this work as planned.

The CRA updates this plan annually to confirm the feasibility of the key deliverables and to take into account any new or changed financial reporting risks.

This table provides an overview of the CRA's plans in terms of the four following key ICFR assessment stages: document, assess design effectiveness, assess operating effectiveness, and transition to a program of ongoing monitoring.

Assessment type	Document framework	Assess design effectiveness	Assess operating effectiveness	Ongoing monitoring
Agency activities	Completed 2009-2010	Completed 2010-2011	Completed 2011-2012	Starting in 2012-2013: annually test new, changed, remediating controls, and test high risk controls on a 3-year rotational basis
Administered activities				
T2 corporate income tax	Completed 2007-2008	Completed 2009-2010	2011-2012 to 2013-2014	To be determined
T1 individual income tax	Completed 2009-2010	Completed 2010-2011	To be determined	
T1 unapplied taxes/ source deductions	2012-2013	2013-2014 to 2014-2015		
T3 trust income tax	2012-2013 to 2013-2014	2014-2015 to 2015-2016		
Goods and services tax	2012-2013	2013-2014 to 2014-2015	To be determined	
Non-resident income tax	To be determined			
Excise tax				
Benefits				
Note: The dates planned for the T1, T2, and T3 assessments also include the Office of the Auditor General audits and publishing the Canadian Standard on Assurance Engagements 3416 reports for all activities related to tax collection agreements.				