



Canada Revenue
Agency

Agence du revenu
du Canada



DEPARTMENTAL RESULTS REPORT **FINANCIAL STATEMENTS**

2017-18

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 Departmental Results 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 an effective system of internal control over financial reporting (ICFR) that takes into account costs, benefits and risks. It is 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 the internal control system 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, 2018 was completed in accordance with the Treasury Board Policy on Financial Management 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:

Bob Hamilton
Commissioner of Revenue and Chief Executive
Officer of the Canada Revenue Agency

Kami Ramcharan
Chief Financial Officer and Assistant
Commissioner, Finance and Administration Branch

Ottawa, Ontario
August 28, 2018

Canada Revenue Agency
Financial Statements - Agency Activities



INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Agency Activities of the Canada Revenue Agency, which comprise the statement of financial position as at 31 March 2018, and the statement of operations and agency net financial position, statement of change in agency net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at 31 March 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Michael B. Robichaud, CPA, CA
Principal
for the Auditor General of Canada

28 August 2018
Ottawa, Canada

Canada Revenue Agency
Statement of Financial Position – Agency Activities
as at March 31
(in thousands of dollars)

	2018	2017
Liabilities		
Accrued salaries	479,094	341,486
Accounts payable and accrued liabilities (note 4)	115,434	98,756
Vacation pay and compensatory leave	211,925	212,148
Employee severance benefits (note 5e)	216,690	573,721
Employee sick leave benefits (note 5e)	260,516	253,093
Total liabilities	1,283,659	1,479,204
Financial assets		
Due from the Consolidated Revenue Fund	487,787	311,560
Accounts receivable and advances (note 6)	35,631	18,181
Total financial assets	523,418	329,741
Agency net debt	760,241	1,149,463
Non-financial assets		
Prepaid expenses	16,649	12,769
Tangible capital assets (note 7)	409,197	399,074
Total non-financial assets	425,846	411,843
Agency net financial position	334,395	737,620

Contingent liabilities (note 11)

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

Approved by:

Bob Hamilton
Commissioner of Revenue and Chief Executive
Officer of the Canada Revenue Agency

Date

Suzanne Gouin, MBA, ICD.D
Chair, Board of Management

Date

Canada Revenue Agency
Statement of Operations and Agency Net Financial Position – Agency Activities
for the year ended March 31
(in thousands of dollars)

	2018	2018	2017
	Planned results	Actual results	Actual results
Expenses (note 8a)			
Tax	3,370,554	3,469,849	3,527,136
Internal services	1,277,788	1,295,515	1,219,288
Benefits	158,677	147,269	168,597
Taxpayers' Ombudsman	3,414	3,195	3,093
Total expenses	4,810,433	4,915,828	4,918,114
Non-tax revenues (note 8b)			
Tax	409,655	408,356	427,522
Internal services	146,739	162,870	163,509
Benefits	19,950	22,743	20,601
Revenues earned on behalf of Government	(68,141)	(74,717)	(77,667)
Total non-tax revenues	508,203	519,252	533,965
Net cost of operations before government funding and transfers	4,302,230	4,396,576	4,384,149
Government funding and transfers			
Net cash provided by the Government of Canada	4,273,858	4,025,022	3,864,284
Services provided without charge from other government agencies and departments (note 9)	466,944	598,490	512,444
Change in due from the Consolidated Revenue Fund		176,227	42,451
Transfer of transition payments for implementing salary payments in arrears		(11)	(44)
Net transfers of tangible capital assets and salary overpayments to other government departments (OGD)		73	10
Total government funding and transfers	4,740,802	4,799,801	4,419,145
Net surplus of operations after government funding and transfers	(438,572)	(403,225)	(34,996)
Agency net financial position - Beginning of year	737,620	737,620	772,616
Agency net financial position - End of year	299,048	334,395	737,620

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

Canada Revenue Agency
Statement of Change in Agency Net Debt – Agency Activities
for the year ended March 31
(in thousands of dollars)

	2018	2018	2017
	Planned results	Actual results	Actual results
Net surplus of operations after government funding and transfers	(438,572)	(403,225)	(34,996)
Change in tangible capital assets			
Acquisition of tangible capital assets (note 7)	74,855	89,687	89,102
Amortization of tangible capital assets (note 7)	(96,217)	(78,342)	(89,076)
Proceeds from disposal of tangible capital assets		(8)	(78)
Net loss on disposal/write-off of tangible capital assets	(2,365)	(1,214)	(3,206)
Net transfers of tangible capital assets to OGD		-	10
Total change in tangible capital assets	(23,727)	10,123	(3,248)
Change in prepaid expenses		3,880	315
Net decrease in agency net debt	(462,299)	(389,222)	(37,929)
Agency net debt - Beginning of year	1,149,463	1,149,463	1,187,392
Agency net debt - End of year	687,164	760,241	1,149,463

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

Canada Revenue Agency
Statement of Cash Flows – Agency Activities
for the year ended March 31
(in thousands of dollars)

	2018	2017
Operating activities		
Net cost of operations before government funding and transfers	4,396,576	4,384,149
Items not affecting cash		
Amortization of tangible capital assets (note 7)	(78,342)	(89,076)
Net loss on disposal/write-off of tangible capital assets	(1,214)	(3,206)
Services provided without charge from other government agencies and departments (note 9)	(598,490)	(512,444)
Transition payments for implementing salary payments in arrears	11	44
Transfer of salary overpayments to OGD	(73)	-
Change in accounts receivable and advances	17,450	10,766
Change in prepaid expenses	3,880	315
Change in accrued salaries	(137,608)	(12,212)
Change in accounts payable and accrued liabilities	(16,678)	(10,966)
Change in vacation pay and compensatory leave	223	(23,110)
Change in employee severance benefits	357,031	30,428
Change in employee sick leave benefits	(7,423)	572
Cash used in operating activities	3,935,342	3,775,260
Capital investing activities		
Acquisition of tangible capital assets (note 7)	89,687	89,102
Proceeds from disposal of tangible capital assets	(8)	(78)
Cash used in capital investing activities	89,679	89,024
Net cash provided by the Government of Canada	4,025,022	3,864,284

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

Canada Revenue Agency

Notes to the Financial Statements – Agency Activities

1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice, and services by:

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

The CRA administers revenues, including income and sales taxes and employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and administers other amounts, including Canada Pension Plan contributions, for other groups or organizations. In addition to the *Canada Revenue Agency Act*, the CRA is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Pension Plan Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Employment Insurance Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In delivering its mandate, the CRA operates under the following core responsibilities:

- (a) Tax: to ensure that Canada's voluntary self-assessment tax system is sustained by providing taxpayers with the support and information they need to understand and fulfil their tax obligations, and by taking compliance and enforcement action when necessary to uphold the integrity of the system, offering avenues for redress whenever taxpayers may disagree with an assessment/decision;
- (b) Internal services: Internal services are those groups of related activities and resources that the Federal Government considers to be services in support of programs and/or required to meet corporate obligations of an organization. Internal services refer to the activities and resources that support program delivery in the organization, such as human resources management, financial management and information technology;
- (c) Benefits: to ensure that Canadians obtain the support and information they need to know what benefits they may be eligible to receive, that they receive their benefit payments in a timely manner, and have avenues of redress when they disagree with a decision on their benefit eligibility;
- (d) Taxpayers' Ombudsman: Canadians have access to trusted and independent review of service complaints about the CRA.

2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities 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 which are managed by the CRA and utilized in running the organization. The Financial Statements - Administered Activities include those revenues and expenses that are administered on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The purpose of the distinction between agency and administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the CRA in achieving its mandate. Tax-related assets, liabilities, revenues and expenses are excluded from these financial statements because they can only accrue to a government, not to the tax agency that administers those transactions.

As required by the *Canada Revenue Agency Act*, the Financial Statements - Agency Activities have been prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The accounting principles used are in accordance with Canadian public sector accounting standards. A summary of significant accounting policies follows:

(a) Parliamentary appropriations

The CRA is financed by the Government of Canada through Parliamentary appropriations. Financial reporting of authorities provided to the CRA does not parallel financial reporting according to Canadian public sector accounting standards, as they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position may be different from those provided through appropriations from Parliament. Note 3(b) provides a high-level reconciliation between the two bases of reporting. The Future-oriented Statement of Operations - Agency Activities and its accompanying notes included in the 2017-2018 Departmental Plan are the source of information for the planned results in the financial statements.

(b) Net cash provided by the Government of Canada

The CRA operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the CRA is deposited to the CRF and all cash disbursements made by the CRA are paid from the CRF. The net cash provided by government is the difference between all spendable cash receipts and all cash disbursements including transactions with departments and agencies.

(c) Expense recognition

Expenses are recognized when goods are received and/or services are rendered.

(d) Revenue recognition

Non-tax revenues are recognized when the services are rendered by the CRA.

Non-tax revenues that are not available for spending cannot be used to discharge the CRA's liabilities. While management is expected to maintain accounting control, it has no authority regarding the disposition of non-spendable revenues. As a result, non-spendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented as a reduction of the CRA's gross revenues.

(e) Vacation pay and compensatory leave

Vacation pay and compensatory leave expenses are accrued as the benefits are earned by the employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

(f) Employee future benefits

a) Pension benefits

All eligible CRA employees participate in the Public Service Pension Plan administered by the Government of Canada. The CRA's contributions reflect the full cost as employer. These amounts are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the plan. The CRA's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the CRA. Current legislation does not require the CRA to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

b) Health and dental benefits

The Government of Canada sponsors employee benefit plans (health and dental) in which the CRA participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The CRA's contributions to the plans, which are provided without charge by the Treasury Board Secretariat, are recorded as expenses at their carrying value. They represent the CRA's total obligation to the plans. Current legislation does not require the CRA to make contributions for any future unfunded liabilities of the plans.

c) Severance benefits

Some employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The severance benefits represent an obligation of the CRA that entails settlement by future payments. The liability resulting from the benefits earned by CRA employees is calculated using information from an actuarial valuation based on the projected benefit method prorated on services. Changes in actuarial assumptions and any variance between the expected and the actual experience of the severance benefits plan give rise to actuarial gains or losses. These gains or losses are not recognized immediately but amortized on a straight-line basis over the expected average remaining service life of the employees starting in the fiscal year following the one in which they arose. In addition, an unrecognized net actuarial loss is recognized immediately upon a plan amendment, up to a maximum of the related decrease in the accrued benefit obligation; similarly, an unrecognized net actuarial gain is recognized immediately, up to a maximum of the related increase in the accrued benefit obligation. The unrecognized net actuarial gain or loss arising from a curtailment or settlement of severance benefits is recognized immediately upon the plan curtailment or settlement.

d) Sick leave benefits

Employees are eligible to accumulate sick leave benefits until retirement or termination according to their terms of employment. Sick leave benefits are earned based on employee services rendered and are paid upon an illness or injury related absence. These are accumulating non-vesting benefits that can be carried forward to future years, but are not eligible for payment on retirement or termination, nor can these be used for any other purpose. A liability is recorded for unused sick leave credits expected to be used in future years in excess of future allotments, based on an actuarial valuation using an accrued benefit method. Changes in actuarial assumptions and any variance between the expected and the actual experience of the sick leave benefits plan give rise to actuarial gains or losses. These gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees starting in the fiscal year following the one in which they arose.

(g) Due from the Consolidated Revenue Fund (CRF)

Amounts due from the CRF are the result of timing differences between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the CRA is entitled to draw from the CRF without further authorities to discharge its liabilities.

(h) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. An allowance for doubtful accounts is recorded where recovery is considered uncertain.

(i) Tangible capital assets

All initial costs of \$10,000 or more incurred by the CRA to acquire or develop tangible capital assets are capitalized and amortized over the useful lives of the assets. Similar items under \$10,000 are expensed. When conditions indicate that an asset no longer contributes to the CRA's ability to provide services, or that the value of the future economic benefits associated with the asset is less than its net book value, the cost of the asset is reduced to reflect the decline in the asset's value.

Tangible capital assets are amortized on a straight-line basis over the estimated useful lives of assets as follows:

Asset class	Useful life
Machinery, equipment, and furniture	10 years
In-house developed software	5-10 years
Vehicles and other means of transportation	5 years
Information technology equipment	5 years
Purchased software	3 years

Assets under construction/development are recorded as costs are incurred and are not amortized until completed and put into operation.

(j) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable, the CRA's best estimate of the contingency is disclosed in the notes to the financial statements.

(k) Foreign currency translation

Transactions involving foreign currencies are translated into Canadian dollars by applying the exchange rate in effect at the time of those transactions. Realized foreign exchange gains and losses resulting from foreign currency transactions are included in the other services and expenses category in note 8a – Segmented information – Expenses.

(l) Financial instruments

The CRA uses non-derivative financial instruments in the course of its operations. Those financial instruments gave rise to the following financial assets and financial liabilities that are measured at cost or amortized cost, as per the table below.

Financial assets and financial liabilities	Measurement
Accounts receivable and advances	Amortized cost
Accrued salaries	Cost
Accounts payable and accrued liabilities	Cost
Vacation pay and compensatory leave	Cost

(m) Related party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations and transactions between commonly controlled entities are considered inter-entity transactions. Services provided without charge by other government departments and inter-entity transfers of tangible capital assets for nominal or no consideration are recorded and measured at the carrying amount. Services provided on a cost recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount. Transactions with Crown corporations are entered into using similar terms and conditions to those adopted if the entities were dealing at arm's length. They are recorded at the exchange amount.

(n) Measurement uncertainty

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of liabilities, assets, revenues, expenses and related disclosure reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance and sick leave benefits, accrued salaries, contingent liabilities, the useful life of tangible capital assets and services provided without charge are the most significant items where estimates and assumptions are used. Actual results could differ significantly from the current estimates. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the period in which they become known. The methodologies used to determine the estimates were applied consistently with the previous year.

3. Parliamentary appropriations

The CRA receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the CRA has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

a) Reconciliation of Parliamentary appropriations provided and used:

	2018	2017
	(in thousands of dollars)	
Parliamentary appropriations — provided:		
Vote 1 – Operating expenditures, contributions and recoverable expenses on behalf of the <i>Canada Pension Plan</i> and the <i>Employment Insurance Act</i>	3,823,714	3,589,124
Vote 5 – Capital expenditures	80,802	96,311
Spending of revenues received through the conduct of operations pursuant to section 60 of the <i>Canada Revenue Agency Act</i>	166,387	163,734
Spending of proceeds from disposal of surplus Crown assets	63	161
Statutory expenditures:		
Contributions to employee benefit plans	440,013	452,571
Disbursements to provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i> ¹	-	(110)
Children's special allowance payments ¹	333,553	319,659
Other	1,280	620
	<u>4,845,812</u>	<u>4,622,070</u>
Less:		
Appropriations available for future year ² :		
Vote 1	(119,070)	(182,214)
Vote 5	(6,145)	(21,438)
Appropriations lapsed:		
Vote 1	(11,769)	(28,470)
Vote 5	(1,061)	-
Expenditures related to administered activities ¹	<u>(333,561)</u>	<u>(319,557)</u>
	<u>(471,606)</u>	<u>(551,679)</u>
Total Parliamentary appropriations used	<u>4,374,206</u>	<u>4,070,391</u>

1 In accordance with the division of activities for financial reporting purposes outlined in note 2, the payments under the *Softwood Lumber Products Export Charge Act, 2006* and the *Children's Special Allowances Act* are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the CRA's Financial Statements - Administered Activities. The Softwood Lumber Agreement expired on October 12, 2015 and the CRA administered retroactive transactions in accordance with the terms set in the Agreement.

2 Pursuant to section 60(1) of the *Canada Revenue Agency Act*, the CRA has up to two fiscal years to utilize parliamentary appropriations once approved.

- b) Reconciliation of net cost of operations before government funding and transfers to current year
Parliamentary appropriations used:

	2018	2017
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	4,396,576	4,384,149
Expenses not requiring use of current year appropriations:		
Amortization of tangible capital assets (note 7)	(78,342)	(89,076)
Adjustment to prior years' accruals	2,880	1,641
Loss on disposal/write-off of tangible capital assets	(1,222)	(3,271)
Services provided without charge from other government agencies and departments (note 9)	(598,490)	(512,444)
Other	(990)	(4,059)
	<u>(676,164)</u>	<u>(607,209)</u>
Changes to assets affecting appropriations:		
Tangible capital assets acquisitions (note 7)	89,687	89,102
Less: Variation in prior years expenses capitalization	769	(323)
Variation in prepaid expenses	3,880	315
Variation in salary advances and overpayments	10,904	7,979
Transition payments for implementing salary payments in arrears	11	44
	<u>105,251</u>	<u>97,117</u>
Changes in future funding requirements:		
Salary, vacation pay and compensatory leave	34,695	1,542
Employee severance benefits	357,031	30,428
Employee sick leave benefits	(7,423)	572
	<u>384,303</u>	<u>32,542</u>
Non-tax revenues available for spending (note 8b)	164,240	163,792
Total Parliamentary appropriations used	<u>4,374,206</u>	<u>4,070,391</u>

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within 30 days of year-end.

	2018	2017
	(in thousands of dollars)	
Accounts payable and accrued liabilities - External	66,241	58,113
Accounts payable and accrued liabilities - OGD and agencies	49,193	40,643
	<u>115,434</u>	<u>98,756</u>

5. Employee future benefits

a) Pension benefits

The CRA and all eligible employees contribute to the public service pension plan (The “Plan”), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the CRA and the employees contribute to the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to the *Jobs and Growth Act 2012*, employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013.

Each group has a distinct contribution rate. The current year expense for the CRA’s contributions for Group 1 members represents approximately 1.01 time (1.12 times in 2016-2017) the contributions by employees and, for Group 2 members, approximately 1.00 time (1.08 times in 2016-2017) the contributions of employees.

The contributions to the Plan for the year were as follows:

	2018	2017
	(in thousands of dollars)	
CRA's contributions	299,649	315,306
Employees' contributions	297,069	282,328

The CRA’s responsibility with regard to this Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

b) Health and dental benefits

The CRA contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan, which are sponsored by the Government of Canada. The CRA’s responsibility with regard to these plans is limited to its contributions (refer to note 9).

c) Severance benefits

The CRA provides severance benefits to entitled employees based on eligibility, years of service and salary upon termination of employment. These severance benefits are unfunded. Benefits will be paid from future appropriations.

On October 31st, 2016 following collective agreement negotiations, the accumulation of severance benefits for voluntary departures ceased for the last employee group eligible to accumulate severance benefits. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. This plan curtailment resulted in the immediate recognition of a previously unrecognized net actuarial loss of \$11.1 million in 2016-2017. In 2017-2018, payments of \$274 million were made to employees affected by the curtailment of the severance benefits who opted to cash out the full or partial value of their accumulated benefits. The settlements resulted in the immediate recognition of a previously unrecognized net actuarial gain of \$10.9 million in 2017-2018. While eliminating its accumulation of severance benefits, CRA also amended its method to calculate the severance benefit payable to its employees. The 2016-2017 plan amendment results from the termination of severance benefits which are now calculated using the member’s exact service at termination, therefore partial years are now included in the calculation.

d) Sick leave benefits

Employees are credited, based on service, a maximum of 15 days annually for use as paid absences, due to illness or injury. Employees are allowed to accumulate unused sick leave credits each year. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick leave balance for sick-leave compensation ceases on termination of employment. These sick leave benefits are unfunded. They will be paid from future appropriations.

e) Valuation of future benefits

Annually, as at March 31 of each year, the CRA obtains an actuarial valuation of the accrued employee severance and sick leave benefit obligations for accounting purposes.

Changes from the prior year in the actuarial value of these accrued employee benefit obligations that is used to determine the related employee future benefits liabilities presented in the Statement of Financial Position as at March 31 were as follows:

	Severance benefits		Sick leave benefits	
	2018	2017	2018	2017
	(in thousands of dollars)			
Accrued employee benefits obligations, beginning of year	552,848	615,028	236,164	239,887
Benefits earned	4,076	23,740	40,336	40,008
Interest on average accrued benefit obligations (note 8a)	9,573	14,035	5,706	5,552
Benefits paid	(312,044)	(33,323)	(37,194)	(37,017)
Plan amendment	-	6,719	-	-
Plan curtailment	-	(49,493)	-	-
Plan settlement	(45,997)	-	-	-
Actuarial (gain)/loss	2,449	(23,858)	(5,082)	(12,266)
Accrued employee benefits obligations, end of year	210,905	552,848	239,930	236,164
Plus: Unamortized net actuarial gain	5,785	20,873	20,586	16,929
Employee benefits liability	216,690	573,721	260,516	253,093
Benefit expenses¹				
Benefits earned	4,076	23,740	40,336	40,008
Plan amendment	-	6,719	-	-
Plan curtailment	-	(49,493)	-	-
Plan settlement	(45,997)	-	-	-
Actuarial (gain)/loss recognized following plan curtailment/settlement	(10,872)	11,099	-	-
Amortization on net actuarial gain recognized during the year	(1,766)	(3,205)	(1,423)	(9,115)
Total benefit expenses	(54,559)	(11,140)	38,913	30,893

¹ These expenses represent the severance and sick leave benefits that are included in the Other allowances and benefits category in note 8a.

f) Actuarial assumptions

Actuarial assumptions are used to determine the severance and sick leave accrued benefit obligations and includes estimates of the discount rate and yearly salary growth. These assumptions are reviewed at March 31 of each year and are based on management's best estimate. The actuarial valuation as at March 31, 2018 used discount rates of 2.11% for severance benefit obligation and 2.09% for sick leave benefit obligation and salary growth of 1.8% - 2.6% (2.4% discount rate and 1.9% - 2.6% salary growth respectively for both severance and sick leave benefits as at March 31, 2017). The expected average remaining service life is 11.8 years for severance benefits and 13.31 years for sick leave benefits as at March 31, 2018 (11.5 years and 13.19 years respectively as at March 31, 2017).

g) Sensitivity Analysis

Changes in assumptions can result in significantly higher or lower estimates of the accrued employee benefits obligations. The table below illustrates the possible impact of a 1% change in the principal actuarial assumptions being the discount rate and the salary growth.

	Severance benefits		Sick leave benefits	
	2018	2017	2018	2017
	(in thousands of dollars)			
Possible impact on the accrued employee benefits obligations due to:				
Increase of 1% in discount rate	(13,624)	(21,065)	(14,041)	(14,240)
Decrease of 1% in discount rate	15,612	24,575	15,892	16,185
Increase of 1% in salary growth	15,431	24,324	18,192	18,470
Decrease of 1% in salary growth	(13,734)	(21,261)	(16,347)	(16,524)

6. Accounts receivable and advances

	2018	2017
	(in thousands of dollars)	
Salary overpayments	11,096	6,558
Accounts receivable - OGD and agencies	20,577	6,522
Advances to employees	4,414	3,812
Accounts receivable - External	2,155	2,207
	38,242	19,099
Less: Allowance for doubtful accounts	(2,611)	(918)
Total accounts receivable and advances	35,631	18,181

7. Tangible capital assets

Tangible capital asset class	Cost				Closing balance
	Opening balance	Acquisitions	Disposals	Transfers to OGD	
	(in thousands of dollars)				
Machinery, equipment and furniture	7,259	-	(622)	(17)	6,620
Software (purchased and in-house developed and/or in development)	1,078,054	88,945	(6,626)	(1,270)	1,159,103
Vehicles and other means of transportation	1,553	215	(16)	-	1,752
Information technology equipment	8,228	527	(305)	-	8,450
Total	1,095,094	89,687	(7,569)	(1,287)	1,175,925

Tangible capital asset class	Accumulated amortization				Closing balance
	Opening balance	Amortization expense	Disposals	Transfers to OGD	
	(in thousands of dollars)				
Machinery, equipment and furniture	4,382	496	(523)	(17)	4,338
Software (purchased and in-house developed and/or in development)	684,109	77,155	(5,508)	(1,270)	754,486
Vehicles and other means of transportation	1,177	166	(16)	-	1,327
Information technology equipment	6,352	525	(300)	-	6,577
Total	696,020	78,342	(6,347)	(1,287)	766,728

Tangible capital asset class	2018 Net book value	2017 Net book value
	(in thousands of dollars)	
Machinery, equipment and furniture	2,282	2,877
Software (purchased and in-house developed and/or in development)	404,617	393,945
Vehicles and other means of transportation	425	376
Information technology equipment	1,873	1,876
Total	409,197	399,074

The cost of software in development, which is not amortized, is \$127.0 million as at March 31, 2018 (\$105.5 million as at March 31, 2017).

8. Segmented information

Presentation by segment is based on the CRA's core responsibilities as described in note 1 of these financial statements. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2.

a) The following table presents the expenses incurred for the main core responsibilities, by major object of expense.

	Tax	Internal services	Benefits	Taxpayers' Ombudsman	2018	2017
					(in thousands of dollars)	
Personnel:						
Salaries	2,013,805	579,486	74,977	2,003	2,670,271	2,644,181
Other allowances and benefits (including employee benefits described in note 5)	756,288	196,489	27,990	704	981,471	1,028,997
	2,770,093	775,975	102,967	2,707	3,651,742	3,673,178
Professional and business services	118,272	362,053	1,113	155	481,593	414,485
Accommodation	241,127	69,643	10,114	209	321,093	358,228
Federal sales tax administration costs by the Province of Québec	141,822	-	-	-	141,822	141,821
Transportation and communications	76,354	22,168	16,758	38	115,318	119,354
Amortization of tangible capital assets (note 7)	64,226	9,110	5,005	1	78,342	89,076
Other services and expenses	16,394	10,067	10,431	37	36,929	36,452
Equipment purchases	12,027	17,465	196	10	29,698	21,266
Materials and supplies	14,548	7,531	214	9	22,302	17,356
Interest on average accrued benefit obligations (note 5)	11,574	3,268	426	11	15,279	19,587
Repair and maintenance	801	14,290	7	-	15,098	17,688
Advertising, information and printing services	1,617	1,689	12	14	3,332	4,001
Equipment rentals	983	1,045	26	4	2,058	2,351
Loss on disposal/write-off of tangible capital assets	11	1,211	-	-	1,222	3,271
Total expenses	3,469,849	1,295,515	147,269	3,195	4,915,828	4,918,114

b) The following table presents the non-tax revenues generated for the main core responsibilities, by major type of non-tax revenues.

	Tax	Internal services	Benefits	2018	2017
					(in thousands of dollars)
Non-tax revenues credited to Vote 1					
Fees for administering the <i>Employment Insurance Act</i>	155,772	28,522	721	185,015	198,059
Fees for administering the <i>Canada Pension Plan</i>	139,253	30,744	-	169,997	172,114
	295,025	59,266	721	355,012	370,173
Non-tax revenues available for spending					
Administration fees - provinces and territories	50,012	49,020	17,451	116,483	112,237
Services fees	3,535	40,901	1,111	45,547	48,507
Miscellaneous spendable revenues	1,795	380	35	2,210	3,048
	55,342	90,301	18,597	164,240	163,792
Non-tax revenues not available for spending					
Recovery of employee benefit costs relating to non-tax revenues credited to Vote 1 and revenues available for spending	56,709	13,169	3,425	73,303	76,717
Miscellaneous non-tax revenues	1,280	134	-	1,414	950
	57,989	13,303	3,425	74,717	77,667
Total non-tax revenues before revenues earned on behalf of Government	408,356	162,870	22,743	593,969	611,632
Revenues earned on behalf of Government	(57,989)	(13,303)	(3,425)	(74,717)	(77,667)
Total non-tax revenues	350,367	149,567	19,318	519,252	533,965

9. Related party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. Related parties also include individuals who are members of the CRA key management personnel, close family members of those individuals, and entities fully or jointly controlled by any of them. Expenses and revenues resulting from related party transactions other than those entered into using similar terms and conditions to those adopted if the entities were dealing at arm's length are presented below.

During the year, the CRA received various services without charge from other government departments (OGD) and agencies. These services provided without charge have been recorded at the carrying value as follows:

	2018	2017
	(in thousands of dollars)	
Employer's contribution to the health and dental insurance plans -		
Treasury Board Secretariat	310,306	283,421
Information technology services - Shared Services Canada	249,237	179,474
Legal services - Justice Canada	30,436	41,186
Payroll services - Public Services and Procurement Canada	4,531	4,576
Audit services - Office of the Auditor General of Canada	2,711	2,602
Workers' compensation benefits - Employment and Social Development Canada	1,269	1,185
Total	598,490	512,444

In addition, the CRA recorded the following expenses and revenues at the exchange amount for services provided from or to OGD and agencies:

	2018	2017
	(in thousands of dollars)	
Expenses - OGD and agencies	885,515	920,909
Revenues - OGD and agencies	400,881	418,931

Expenses for services provided by OGD and agencies are mainly comprised of \$432 million for the employer contribution to employee benefit plans charged by the Treasury Board Secretariat and \$321 million in accommodation costs charged by Public Services and Procurement Canada.

Revenues for services provided to OGD and agencies primarily relate to cost recoveries totaling \$355 million for the administration of the *Employment Insurance Act* and the *Canada Pension Plan* on behalf of Employment and Social Development Canada.

10. Board of Management

Pursuant to the *Canada Revenue Agency Act*, a Board of Management is appointed to oversee the organization and administration of the CRA and the management of its resources, services, property, personnel and contracts. The expenses relating to the board's activities for the year included in the net cost of operations were as follows:

	2018	2017
	(in thousands of dollars)	
Board of Management		
Compensation	343	305
Travel	94	94
Professional services and other expenses	87	62
	524	461
Other related costs		
Board Secretariat support	646	593
Total	1,170	1,054

11. Contingent liabilities

The CRA is a defendant in certain cases of pending and threatened litigation which arises in the normal course of business of agency activities as defined in note 2. The amount to be paid in respect of the cases identified as likely to be lost has been recorded in accounts payable and accrued liabilities, based on the current best estimate of the consideration required to settle the present liabilities at the end of the reporting period, taking into account the risks and uncertainties surrounding the liabilities. The extent of these cases have not been disclosed as it could have an adverse effect on their outcome.

All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2018, these contingent liabilities have been estimated at \$42.7 million (\$91.5 million as at March 31, 2017) which is based on management's best estimate determined on a case by case basis.

12. Financial risk management

The CRA uses non-derivative financial instruments in the course of its operations that give rise to financial assets and financial liabilities. Those financial liabilities comprise accrued salaries, accounts payable and accrued liabilities, vacation pay and compensatory leave. Accounts receivable and advances represent those financial assets.

The CRA is exposed to credit risk, liquidity risk and market risk in connection with its financial instruments.

The credit risk is the risk that another party owing money to the CRA would fail to discharge its obligation creating a financial loss for the CRA. The maximum exposure of the CRA to the credit risk amounted to \$35.6 million as at March 31, 2018 (\$18.2 million as at March 31, 2017), which is equal to the carrying value of its accounts receivable and advances. As the vast majority of the CRA's accounts receivable and advances are either with other government departments or employees, the credit risk is low.

The liquidity risk is the risk that the CRA would encounter difficulty in meeting its obligations associated with its financial liabilities. The CRA's liquidity risk is minimal given that the CRA receives most of its funding through annual Parliamentary appropriations and maintains strong controls over expenditure management.

The market risk is defined as the risk that future cash flows of a financial instrument would fluctuate because of changes in currency rates, interest rates and/or other rates. The CRA's exposure to market risk is limited to fluctuations in the currency rates and the impact of such variations on CRA's cash flows is negligible as its financial transactions in foreign currency are immaterial.

The CRA's exposure to these risks and the policies and processes to manage and measure them did not change significantly from the prior year.

13. Comparative figures

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

FINANCIAL STATEMENTS DISCUSSION AND ANALYSIS - Agency Activities

Introduction

This section of the financial statements provides unaudited complementary information on Agency Activities, on an accrual basis, in respect of matters reported in the audited financial statements. The Canada Revenue Agency's (CRA) management is responsible for the preparation of this financial statements discussion and analysis.

Capacity to deliver services

The CRA's workforce of approximately 40,000 employees is fundamental to the achievement of its mandate.

CRA employees are located throughout Canada, in the following operational regions: Pacific, Prairies, Ontario, Headquarters, Québec and Atlantic. They provide services to taxpayers in multiple 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. It involves an extensive IT infrastructure that is managed primarily by Shared Services Canada and includes the development and maintenance of applications across a distributed computing environment.

Risk management

The CRA recognizes that a variety of risks could have potential implications on its financial position and operations. The Enterprise Risk Management (ERM) Division of the Audit, Evaluation, and Risk Branch plays a key role in ensuring that corporate risks are identified, impacts are assessed, and strategies for risk management are adopted, notably by producing the CRA Corporate Risk Profile.

Further details on ERM at the CRA are discussed in the Departmental Results Report. This financial statements discussion and analysis will elaborate on specific financial risks throughout its content, where applicable.

Financial highlights

In 2017-2018, the CRA has again managed within its Parliamentary approved authorities, with a carry forward of appropriations of \$125.2 million. This amount was largely planned and forms part of the CRA's strategy to address unfunded operating pressures in 2018-2019 as well as manage changes in the funding profile of major investment projects.

In addition to the \$981.8 million received through Budget 2016 starting last year over five years for client-focused services, enhanced tax collections and reducing tax evasion and avoidance, Budget 2017 invested a further \$523.9 million over five years to prevent tax evasion and improve tax compliance. In 2017-2018, the CRA spent 96% of the resources received for Budgets 2016 and 2017 implementation measures, and achieved the established targets.

As part of its ongoing resource management strategy, the CRA continuously reviews and revises plans and priorities to ensure the effective and efficient use of government resources and the achievement of its core business outcomes.

Discussion and analysis

Net cost of operations before government funding and transfers

The CRA's 2017-18 net cost of operations before government funding and transfers amounted to \$4,396.5 million, an increase of \$12.4 million from the \$4,384.1 million net cost of operations before government funding and transfers in 2016-17.

Details of the net cost of operations before government funding and transfers are illustrated below (see note 8a to the Financial Statements – Agency Activities for a further breakdown of expenses by category):

Figure 1: Details on the net cost of operations before government funding and transfers

	2018	2017	Difference
	(in thousands of dollars)		
Personnel	3,651,742	3,673,178	(21,436)
IT equipment and services	464,250	389,255	74,994
Accommodation	321,093	358,228	(37,135)
Federal sales tax administration costs by the Province of Québec	141,822	141,821	1
Professional and business services excluding IT	134,294	147,381	(13,086)
Transportation	115,194	118,991	(3,797)
Other	87,433	89,260	(1,827)
Total expenses	4,915,828	4,918,114	(2,286)
Less: Non-tax revenues	519,252	533,965	(14,713)
Net cost of operations before government funding and transfers	4,396,576	4,384,149	12,427

Personnel expenses (salaries, other allowances and benefits) represent 74% of total expenses and are the CRA's primary costs. The remaining 26% of expenses are comprised of other costs such as information technology (IT) and accommodation expenses.

Personnel costs have decreased by \$21.4 million in 2017-18. Although salary expenses have slightly increased (\$26.1 million), other allowances and benefits have decreased (\$47.5 million). This decrease is mainly explained by the termination of the accumulation of accrued severance benefits for the employees under the Public Service Alliance of Canada (PSAC) collective agreement.

Non-personnel expenses have increased by \$19.1 million in 2017-18. This net variance mainly results from an increase in IT services provided by Shared Services Canada (SSC) (\$78.5 million) mostly due to the implementation of a costing methodology by SSC to refine its assessment of the cost of services provided without charge to other government departments (OGD). This increase was offset in part by a decrease in accommodation costs as a result of a reduction in the number of fit-up projects (\$34.3 million) and a decrease in the cost of legal services provided without charge by Justice Canada (\$10.8 million) due to a change in the scope of the costing methodology to calculate the amount of services provided without charge to OGD.

Non-tax revenues decreased by \$14.7 million in 2017-18, which is mostly attributable to greater revenues in 2016-2017 resulting from the invoicing of the retroactive salary payments applicable to the administration of the *Canada Pension Plan* and the *Employment Insurance Act*.

Financial position

The change in the Agency's net financial position compared to the previous year is as follows:

Figure 2: Statement of Financial Position

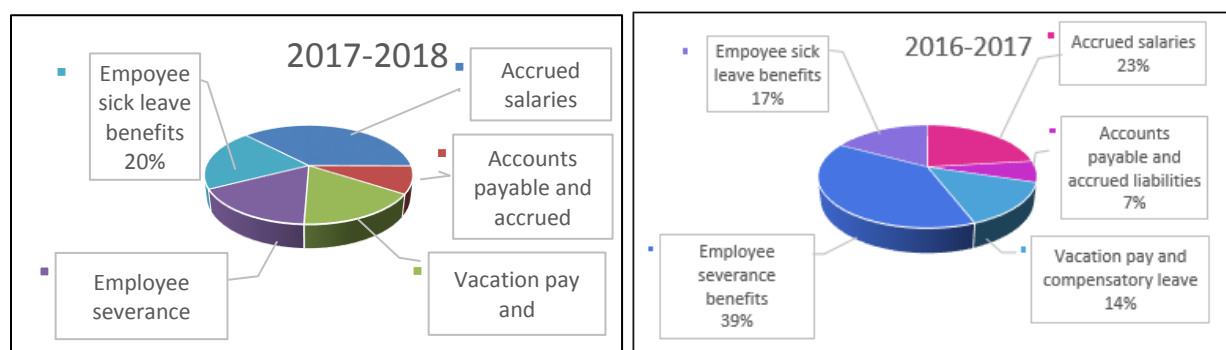
	2018	2017	Difference
	(in thousands of dollars)		
Liabilities	1,283,659	1,479,204	(195,545)
Financial assets	523,418	329,741	193,677
Agency net debt	760,241	1,149,463	(389,222)
Non-financial assets	425,846	411,843	14,003
Agency net financial position	334,395	737,620	(403,225)

Liabilities

Liabilities have decreased by \$195.5 million in 2017-18. This was mainly attributable to a significant decrease in employee severance benefit liability since settlement payments were issued in 2017-18 to the employees under the PSAC collective agreement who opted to cash out the full or partial value of their accumulated benefits following the plan curtailment in 2016-2017. This decrease was offset in part by an increase in the provision for salary increases payable in relation to newly signed and/or expired collective agreements.

These variances impacted significantly the proportions of the various categories of liabilities as illustrated below.

Figure 3: Liabilities by category



Employee sick leave and severance benefits are significant liabilities that require the use of management estimates and assumptions to determine their present value as at March 31 of each year. As such, there is a financial risk of imprecision in the financial position of the CRA where actual liabilities and the related expenses may differ significantly from current estimates.

To minimize this risk, the CRA uses the expertise of the Office of the Chief Actuary, who provides an actuarial valuation report on a yearly basis, presenting the actuarial assumptions and method used to determine the actuarial present value of those employee benefits. Actuarial assumptions used by the CRA are consistent with those used by the Government of Canada.

Financial assets

The increase in financial assets is correlated to specific increases in liabilities, as an account receivable is created for liabilities that are not settled at year-end, but for which appropriations were used. This account receivable, the Due from the Consolidated Revenue Fund (CRF), represents the net amount of cash that the CRA is entitled to draw from the CRF that is administered by the Receiver General for Canada without using further appropriations to discharge its liabilities. The vast majority of the \$193.7 million increase in financial assets in 2017-18 is due to the increase in accrued salaries.

Non-financial assets

Non-financial assets are comprised of 96% tangible capital assets. The CRA managed a capital budget of \$80.8 million for the year 2017-18 (\$96.3 million for 2016-17), of which a total of \$6.1 million (\$21.4 million for 2016-17) remains available for use in future years in accordance with the CRA's multi-year resource management strategy.

The net book value of tangible capital assets has increased by \$10.1 million in 2017-18. The costs capitalized have remained fairly stable at close to \$90.0 million, while amortization expenses decreased by \$10.7 million reflecting the increased number of in house developed software that are now fully depreciated. The vast majority of tangible capital assets owned by the CRA relates to IT, specifically in-house developed software. As a large organization 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 CRA employees.

To prioritize investment decisions regarding in-house developed software and support the effective management of resources, the CRA Resource Management Committee (RMC) oversees investment projects above \$1 million. All projects brought to the RMC require a formal attestation from the ERM Division that the CRA 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. Enterprise risk information is also used to inform the development of the CRA Strategic Investment Plan, a long-term plan of significant future investments. Alignment with the priorities outlined in the CRA Corporate Risk Profile is one of the considerations used to inform the priority ranking of initiatives.

Five year comparative financial information

The following tables provide a five year comparison of financial information based on the accounting policies described in note 2 to the audited financial statements.

Figure 4: Statement of Financial position

	2014	2015	2016	2017	2018
	(in thousands of dollars)				
Liabilities					
Accrued salaries	129,589	267,026	329,274	341,486	479,094
Accounts payable and accrued liabilities	94,901	120,595	87,790	98,756	115,434
Vacation pay and compensatory leave	189,672	188,444	189,038	212,148	211,925
Employee severance benefits	570,114	606,770	604,149	573,721	216,690
Employee sick leave benefits	243,700	246,742	253,665	253,093	260,516
Total liabilities	1,227,976	1,429,577	1,463,916	1,479,204	1,283,659
Financial assets					
Due from the Consolidated Revenue Fund	163,405	282,102	269,109	311,560	487,787
Accounts receivable and advances	6,678	10,153	7,415	18,181	35,631
Total financial assets	170,083	292,255	276,524	329,741	523,418
Agency net debt	1,057,893	1,137,322	1,187,392	1,149,463	760,241
Non-financial assets					
Prepaid expenses	11,963	12,538	12,454	12,769	16,649
Tangible capital assets	386,327	393,415	402,322	399,074	409,197
Total non-financial assets	398,290	405,953	414,776	411,843	425,846
Agency net financial position	659,603	731,369	772,616	737,620	334,395

Figure 5: Segmented information – Expenses

	2014	2015	2016	2017	2018
	(in thousands of dollars)				
Personnel:					
Salaries	2,408,276	2,420,180	2,406,841	2,644,181	2,670,271
Other allowances and benefits	979,750	995,625	966,686	1,028,997	981,471
	3,388,026	3,415,805	3,373,527	3,673,178	3,651,742
Professional and business services	372,352	370,037	375,812	414,485	481,593
Accommodation	349,810	331,325	315,216	358,228	321,093
Federal sales tax administration costs by the Province of Québec	142,772	142,133	142,275	141,821	141,822
Transportation and communications	115,408	125,987	127,699	119,354	115,318
Amortization of tangible capital assets	75,040	79,171	83,843	89,076	78,342
Other services and expenses	28,726	42,573	35,368	36,452	36,929
Equipment purchases	17,056	18,747	17,461	21,266	29,698
Materials and supplies	20,094	19,229	19,794	17,356	22,302
Interest on average accrued benefit obligations	21,526	25,476	20,003	19,587	15,279
Repair and maintenance	17,102	21,358	20,143	17,688	15,098
Advertising, information and printing services	8,805	7,710	4,865	4,001	3,332
Equipment rentals	3,162	2,358	2,389	2,351	2,058
Loss on disposal/write-off of tangible capital assets	2,204	5,584	899	3,271	1,222
Total expenses	4,562,083	4,607,493	4,539,294	4,918,114	4,915,828

Figure 6: Segmented information – Non-tax revenues

	2014	2015	2016	2017	2018
	(in thousands of dollars)				
Non-tax revenues credited to Vote 1					
Fees for administering the <i>Employment Insurance Act</i>	182,794	174,319	179,196	198,059	185,015
Fees for administering the <i>Canada Pension Plan</i>	147,771	141,225	143,208	172,114	169,997
	330,565	315,544	322,404	370,173	355,012
Non-tax revenues available for spending					
Administration fees - provinces and territories	104,115	108,424	110,387	112,237	116,483
Services fees	56,496	54,190	53,722	48,507	45,547
Miscellaneous spendable revenues	2,325	2,462	3,412	3,048	2,210
	162,936	165,076	167,521	163,792	164,240
Non-tax revenues not available for spending					
Recovery of employee benefit costs relating to non-tax revenues credited to Vote 1 and revenues available for spending	61,834	63,925	65,653	76,717	73,303
Miscellaneous non-tax revenues	1,172	769	3,890	950	1,414
	63,006	64,694	69,543	77,667	74,717
Total non-tax revenues before revenues earned on behalf of Government	556,507	545,314	559,468	611,632	593,969
Revenues earned on behalf of Government	(63,006)	(64,694)	(69,543)	(77,667)	(74,717)
Total non-tax revenues	493,501	480,620	489,925	533,965	519,252

Outlook

Looking ahead, the CRA will continue to innovate in order to improve the efficiency and effectiveness of its operations and programs while contributing to the Government of Canada's priorities, by continuously optimizing the use of its resources and modernizing its services and compliance activities.

As part of Budget 2018, the CRA has received funding of \$129.3 million over five years to continue its efforts to prevent tax evasion and improve tax compliance and audit programs both domestically and offshore.

In addition, Budget 2018 announced funding of \$206.0 million over five years and \$33.6 million ongoing to address CRA's commitments to service excellence. This will allow the CRA to improve the telephone services, the Community Volunteer Income Tax Program and update and modernize the CRA's information technology infrastructure for a more user-friendly experience.

Further to Budget 2018, a comprehensive review of the CRA's service model is being undertaken. This initiative is examining the CRA's internal decision making processes, compliance and collection activities, the existing service model, and the partnerships that support the delivery of services to ensure that Canadians interacting with the CRA feel like valued clients, not just taxpayers.



INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying statement of administered assets and liabilities of the Canada Revenue Agency as at 31 March 2018, and the statement of administered revenues and pension contributions, statement of administered expenses and recoveries and statement of administered cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (together “the financial information”). The financial information has been prepared by management using the basis of accounting described in Note 2.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of this financial information in accordance with the basis of accounting described in Note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial information based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial information presents fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at 31 March 2018, and the results of its administered operations and its administered cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2 to the financial information, which describes the purpose and basis of accounting for reporting activities administered by the Canada Revenue Agency on behalf of others. This financial information may not be suitable for another purpose. Management prepares a separate set of financial statements to report the operational revenues and expenses of the Canada Revenue Agency.

Catherine Marier, CPA, CA

Principal
for the Auditor General of Canada

28 August 2018
Ottawa, Canada

Canada Revenue Agency
Financial Statements - Administered Activities

Canada Revenue Agency
Statement of Administered Assets and Liabilities
As at March 31
(In millions of dollars)

	2018	2017
Administered assets		
Cash on hand	8,343	8,117
Amounts receivable from taxpayers (note 3)	120,043	107,853
Amounts receivable under the tobacco civil settlements (note 4)	89	165
Total assets	128,475	116,135
Administered liabilities		
Amounts payable to taxpayers (note 5)	61,891	55,156
Amounts payable to provinces (note 6)	490	499
Deposit accounts (note 7)	223	205
	62,604	55,860
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (note 8)	65,871	60,275
Total liabilities	128,475	116,135

Contingent liabilities (note 10)

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

Approved by:

Bob Hamilton
Commissioner of Revenue and Chief Executive
Officer of the Canada Revenue Agency

Date

Suzanne Gouin, MBA, ICD.D
Chair, Board of Management

Date

Canada Revenue Agency
Statement of Administered Revenues and Pension Contributions
For the year ended March 31
(In millions of dollars)

	2018	2017
Revenues administered for the Government of Canada		
Income tax revenues		
Individuals and Trusts	153,668	143,793
Corporations	47,805	42,215
Non-resident tax withholdings	7,845	7,072
	<u>209,318</u>	<u>193,080</u>
Other taxes, duties, and charges		
Goods and services tax (note 11)	13,928	12,653
Energy taxes	5,671	5,552
Other excise taxes and duties	3,708	3,639
Air travellers security charge	823	768
	<u>24,130</u>	<u>22,612</u>
Employment insurance premiums	21,533	22,537
Interest, penalties, and other revenues (note 12)	4,310	4,085
Revenues administered for the Government of Canada	<u>259,291</u>	<u>242,314</u>
Revenues administered for provincial and territorial governments and First Nations		
Income tax revenues		
Individuals and Trusts	71,152	65,085
Corporations	22,308	20,921
	<u>93,460</u>	<u>86,006</u>
Provincial portion of harmonized sales tax (note 13)	28,623	26,657
Other revenues (note 14)	442	349
Revenues administered for provincial and territorial governments and First Nations	<u>122,525</u>	<u>113,012</u>
Pension contributions, interest, and penalties administered for the Canada Pension Plan (note 15)	<u>48,515</u>	<u>47,042</u>
Total administered revenues and pension contributions	<u>430,331</u>	<u>402,368</u>

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

Canada Revenue Agency
Statement of Administered Expenses and Recoveries
For the year ended March 31
(In millions of dollars)

	2018	2017
Expenses administered for the Government of Canada		
Transfers to individuals		
Canada child benefit (note 17)	23,316	16,949
Working income tax benefit	1,259	1,240
Children's special allowances	334	320
Refundable tax credits	184	307
Child tax benefit (note 17)	103	3,149
Universal child care benefit (note 17)	13	1,970
	<u>25,209</u>	<u>23,935</u>
Transfers to corporations		
Refundable investment tax credit	1,284	1,285
Film and video tax credits	563	389
	<u>1,847</u>	<u>1,674</u>
Other federal expenses		
Doubtful accounts expense (note 3)	3,216	2,686
Interest expense	517	337
	<u>3,733</u>	<u>3,023</u>
Total	<u>30,789</u>	<u>28,632</u>
Recoveries administered for the Government of Canada		
Old age security benefits	(1,762)	(1,483)
Employment insurance benefits	(316)	(271)
	<u>(2,078)</u>	<u>(1,754)</u>
Net expenses and recoveries administered for the Government of Canada	<u>28,711</u>	<u>26,878</u>
Expenses administered for provincial and territorial governments		
Transfers to individuals		
Family benefit programs	1,599	1,531
Ontario energy and property tax credit	1,346	1,316
Alberta climate leadership adjustment rebate	298	150
Ontario senior homeowners' property tax grant	208	200
British Columbia low-income climate action tax credit	196	195
Other property tax credits	131	124
Other transfers	361	361
	<u>4,139</u>	<u>3,877</u>
Transfers to corporations		
Film and television production services tax credits	1,475	976
Refundable investment tax credits	692	700
	<u>2,167</u>	<u>1,676</u>
Expenses administered for provincial and territorial governments	<u>6,306</u>	<u>5,553</u>
Doubtful accounts expense administered for the Canada Pension Plan (note 3)	<u>79</u>	<u>75</u>
Total net administered expenses and recoveries	<u>35,096</u>	<u>32,506</u>

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

Canada Revenue Agency
Statement of Administered Cash Flows
For the year ended March 31
(In millions of dollars)

	2018	2017
Total administered revenues and pension contributions	430,331	402,368
Total net administered expenses and recoveries	(35,096)	(32,506)
Revenues paid or payable directly to a province	(390)	(300)
Changes in administered assets and liabilities:		
Cash on hand	(226)	(256)
Amounts receivable from taxpayers	(12,190)	(2,628)
Amounts receivable under the tobacco civil settlements	76	76
Amounts payable to taxpayers	6,735	1,455
Amounts payable to provinces	(9)	(125)
Deposit accounts	18	15
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada (note 8)	389,249	368,099
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	526,115	499,833
Cash refunds/payments from the Consolidated Revenue Fund	(136,866)	(131,734)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada (note 8)	389,249	368,099

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

Canada Revenue Agency

Notes to the Financial Statements – Administered Activities

1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice, and services by:

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

The CRA administers revenues, including income and sales taxes and Employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and administers other amounts, including Canada Pension Plan contributions, for other groups or organizations. In addition to the *Canada Revenue Agency Act*, the CRA is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Pension Plan Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, the *Employment Insurance Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In the province of Quebec, Revenu Québec (RQ) acts as an agent of the CRA in administering and enforcing the GST, except for GST in respect of selected listed financial institutions. The CRA monitors cash transfers made by RQ, reports the GST revenues administered on its behalf, and transfers funds out of the Consolidated Revenue Fund to RQ so it can issue refunds.

Under an agreement with the province of Nova Scotia, the CRA receives worker's compensation payments and transfers these to the province. The CRA's mandate for administering customs legislation is limited to the collection functions noted under Part V.1 of the *Customs Act*. The CRA also provides collection services to Employment and Social Development Canada for certain accounts receivable under various acts.

2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The purpose of these administered activities statements is to give information about the tax-related revenues, expenses, assets, and liabilities that the CRA administers on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The CRA administers individual income tax for all provinces except Quebec, and corporation income tax for all provinces except Quebec and Alberta. The Financial Statements – Agency Activities include the operational revenues and expenses that the CRA manages and uses to run the organization.

The *Canada Revenue Agency Act* requires the CRA to prepare financial statements in accordance with accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. As a result, CRA follows those accounting principles to account for the federal administered activities. In addition, activities administered for the provincial and territorial governments, First Nations, and other organizations are accounted for on the same basis as those administered for the federal government, and may differ from the accounting principles used by those provincial and territorial governments, First Nations, and other organizations. These stated accounting policies are based on Canadian public sector accounting standards.

A summary of the significant accounting policies follows:

(a) Revenue and pension contributions recognition

Revenues and pension contributions are recognized in the year in which the event that generates the revenue or the pension contribution occurs and when the effective date of the related legislation has passed and either the legislation, regulation or by-laws have been approved by the legislature or the ability to assess and collect tax has been provided through legislative convention.

The Canadian tax system is based on self-assessment, so taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The CRA has implemented systems and controls to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include audits of taxpayer records when the CRA decides they are necessary, but these procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws.

An assessment (or reassessment) of tax includes all decisions and other steps made or taken by the Minister of National Revenue and officials of the CRA under the federal, provincial, and territorial acts or sections of the acts the CRA administers to calculate tax payable by taxpayers. When verifying a taxpayer's return, the CRA uses the various tax acts it administers and other criteria it developed that are designed to substantially meet the provisions of these acts. Reassessments include changes to taxes previously assessed at the request of the taxpayer, for example to claim a subsequent loss carry-back, or changes the CRA initiated as a result of applying procedures to verify reporting compliance, such as taxpayer audits. An estimate of future reassessments is recorded for amounts under appeal to the various courts in accordance with the accounting policy on contingent liabilities (note 2 (h)) and for amounts under objection in accordance with the accounting policy on objections (note 2 (g)).

Revenues are reported net of tax concessions. As foregone revenue, tax concessions do not give rise to assets or expenses of the taxing government. Refundable tax credits, deductions, or exemptions provided by the federal, provincial, territorial, or First Nations governments are considered tax concessions when they provide tax relief to taxpayers and relate to the types of taxes that are a revenue source administered by CRA. When the CRA does not administer the related tax revenue, these refundable tax credits, deductions, or exemptions are accounted for as transfers made through the tax system.

Revenues and pension contributions for the fiscal year include adjustments between the estimates of previous years and actual amounts, as well as reassessments relating to prior years. Revenues do not include estimates of unreported taxes, or the impact of future reassessments that cannot yet be reliably determined.

The following policies are applied for specific streams:

(i) Income taxes, Canada Pension Plan contributions, and Employment insurance premiums:

Income tax revenues are recognized when the taxpayer has earned income that is subject to tax. Income is calculated net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current-year activity.

Canada Pension Plan (CPP) contributions from employees, employers, and self-employed persons are recognized when the pensionable income is earned. Employment insurance (EI) premiums are recognized as revenue in the period the insurable earnings are earned. For non-resident taxpayers (individuals and corporations), revenues are recognized when the taxpayers receive income from which tax is withheld on active and inactive income they earned in Canada.

Income tax revenues, pension contributions, and EI premiums are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31.

(ii) Other taxes, duties, and charges:

Goods and services tax (GST) and harmonized sales tax (HST) revenues on domestic goods and services, as well as the Quebec sales tax in respect of selected listed financial institutions are recognized at the time the goods are sold or the services provided. Revenues are reported net of input tax credits, GST/HST rebates, and the GST quarterly tax credits in the case of GST revenues. Input tax credits are the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. Rebates are granted in various circumstances, for example to relieve the tax burden in areas where the cost of housing is very high, or to allow for the recovery of taxes on purchases where the purchaser cannot claim an input tax credit. The GST quarterly tax credit for low-income individuals and families is recorded in the period to which it relates. It is intended to offset the cost of the tax for low-income individuals and families.

For excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed/reassessed, and from estimates of amounts not yet assessed/reassessed based on cash received or historical information, that relate to the fiscal year ended March 31. Air travellers security charge revenues are recognized when they are earned.

(iii) Interest, penalties, and other revenues:

Interest, penalties, and other revenues are recorded when they are earned. Except for the portion related to CPP which is credited to the CPP account, all interest and penalty revenues are reported as revenues administered for the federal government as stated in the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived or cancelled under the various tax acts.

(b) Expenses

(i) Transfers:

Transfers are recognized in the year during which the events giving rise to them occur, provided that the transfer is authorized and all eligibility criteria have been met by the recipient, and a reasonable estimate of the amounts can be made.

(ii) Interest expense:

Refunds may arise late, largely from the resolution of long-standing corporation tax files in favour of the taxpayer. Interest is accrued on refunds from the date that the tax instalment was initially paid to the date that the case is resolved. The CRA records the interest expense in the fiscal year to which it relates.

(iii) Administered recoveries:

Recoveries of old age security and employment insurance benefits are recognized when the taxpayer has earned sufficient income to trigger the recovery of these benefits. These recoveries are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed based on cash received that relates to the fiscal year ended March 31. The CRA reports only recoveries assessed through the individual income tax system. Recoveries determined by other federal government departments are not reported in these financial statements.

(c) Cash on hand

The CRA deposits all monies received to the Consolidated Revenue Fund. Cash on hand refers to amounts received in the CRA's offices or by its agents up to March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada. CRA or its agents deposit funds to the Consolidated Revenue Fund on a daily basis.

(d) Amounts receivable from taxpayers

Amounts receivable from taxpayers include taxes, interest, penalties, and other revenues assessed or estimated by the CRA but not yet collected. A significant portion of the amounts receivable results from recording accrued receivables that relate to the current fiscal year but are not due until the next fiscal year.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts is management's best estimate of the collectability of amounts that have been assessed, including the related interest and penalties. The allowance for doubtful accounts has two components. A general allowance is calculated based on the age and type of tax accounts using rates based on historical collection experience. A specific allowance is calculated based on an annual review of all accounts over \$10 million.

The allowance for doubtful accounts is adjusted every year through the doubtful accounts expense and is reduced by amounts written off as uncollectible during the year. The annual expense is reported in the Statement of Administered Expenses and Recoveries. Except for the portion related to CPP contributions, which is charged to the CPP account, the provision is charged to expenses administered for the federal government because it assumes all collection risks, as stated in the terms of the tax collection agreements with the provinces, territories, and First Nations.

(f) Amounts payable to taxpayers

Amounts payable to taxpayers include refunds and related interest assessed or estimated by the CRA that were not paid up to March 31. A significant portion of the amounts payable results from recording accrued payables that relate to the current fiscal year but are not due for payment until the next fiscal year. They include refunds resulting from assessments completed after March 31, and estimates of refunds for individual and trust income tax and corporation income tax not yet assessed.

(g) Taxes under objection

Taxes under objection are assessed taxes for which the taxpayer filed a notice of objection. A liability is accrued and revenues are reduced if it is determined that the CRA has little or no discretion to avoid settlement. The amounts in objection are disclosed in note 9 to the financial statements.

(h) Contingent liabilities

Contingent liabilities are potential liabilities resulting from taxes assessed which have been appealed to the Tax Court of Canada, the Federal Court of Canada, or the Supreme Court of Canada. Amounts in appeal might become actual liabilities if one or more future events occurs or does not occur. If the future event is likely to occur or likely to not occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and the revenues are reduced. If the likelihood cannot be determined or an amount cannot be reasonably estimated, the contingency is disclosed in note 10 to the financial statements.

(i) Measurement uncertainty

To prepare these statements, management has to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, expenses, and recoveries reported. For these financial statements items, measurement uncertainty is inherent but inestimable. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. In particular, estimates are made to determine individual and trust income tax revenues, corporation income tax revenues, non-resident tax withholdings, GST/HST revenues, energy taxes, other excise tax and duty revenues, Air travellers security charge revenues, EI premiums, CPP contributions, and the related amounts receivable and payable.

A key assumption used in estimating tax revenues is that tax instalments and historical information on refund rates, payments received upon filing tax returns, and amounts receivable assessed are good indicators of the amount of tax revenue earned to March 31 that has not yet been assessed. Another assumption is that historical tax assessment information is a good basis to allocate tax revenues between their various components (for example, between federal, provincial, and territorial tax revenues). Relevant factors such as new administered activities, legislative changes, and economic factors may also be considered. Finally, the key assumption used to estimate the general allowance for doubtful accounts is that historical collection information is a good indicator of uncollectible receivables.

Estimates are based on the best information available at the time of preparation of these statements and management believes these estimates and assumptions to be reasonable. Actual results could differ significantly from the estimates and any differences are recorded in the year the actual amounts are determined. Management monitors the accuracy of the estimates and the underlying assumptions through annual validation procedures and adjusts its estimation models as required. The methodologies used to determine the estimates were applied consistently with the previous year.

3. Amounts receivable from taxpayers

The following table shows details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. Amounts receivable from individuals and employers include Canada Pension Plan contributions and Employment insurance premiums as applicable.

	2018		2017	
	Gross	Allowance for doubtful accounts	Net	Net
	(in millions of dollars)			
Income taxes				
Individuals and Trusts	67,172	(7,241)	59,931	52,749
Employers	21,908	(1,101)	20,807	20,851
Corporations	20,175	(3,066)	17,109	16,102
Non-residents	2,019	(137)	1,882	1,587
GST/HST	20,987	(2,207)	18,780	15,476
Excise taxes and duties and miscellaneous charges	1,830	(296)	1,534	1,088
Total	134,091	(14,048)	120,043	107,853

Changes in the allowance for doubtful accounts include the following:

	Allowance for doubtful accounts March 31, 2017	Doubtful accounts expense	Write-offs	Allowance for doubtful accounts March 31, 2018
	(in millions of dollars)			
Income taxes				
Individuals and Trusts	(7,061)	(1,342)	1,162	(7,241)
Employers	(1,182)	(221)	302	(1,101)
Corporations	(2,814)	(774)	522	(3,066)
Non-residents	(142)	(231)	236	(137)
GST/HST	(2,355)	(657)	805	(2,207)
Excise taxes and duties and miscellaneous charges	(511)	(70)	285	(296)
Total	(14,065)	(3,295)	3,312	(14,048)

The doubtful accounts expense of \$3,295 million (\$2,761 million in 2017) reported above includes an amount of \$3,216 million (\$2,686 million in 2017) recorded as an expense administered for the Government of Canada (see note 2(e)) and \$79 million (\$75 million in 2017) recorded as an expense administered for the Canada Pension Plan.

4. Amounts receivable under the tobacco civil settlements

On July 31, 2008, the federal and provincial governments entered into civil settlement agreements with two tobacco companies to resolve potential civil claims. Under the terms of the agreements, payments totalling \$850 million are to be made to Canada, for Canada and the provinces. The federal government's share is \$325 million and the provincial governments' share is \$525 million. The settlement agreements state that the amounts will be fully paid by 2023. Up to \$800 million is expected to be received in the first 10 years of the agreements and about \$50 million in the following five years. These amounts are recorded at the nominal value.

The following table gives details of the amounts receivable related to the tobacco civil settlement agreements:

	2018			2017		
	Government of Canada share	Provincial share	Total	Government of Canada share	Provincial share	Total
	(in millions of dollars)					
Balance, beginning of year	94	71	165	128	113	241
Amounts received during the year	(34)	(42)	(76)	(34)	(42)	(76)
Balance, end of year	60	29	89	94	71	165

5. Amounts payable to taxpayers

The following table gives details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

	2018	2017
	(in millions of dollars)	
Individuals	35,300	35,502
Corporations	13,710	8,719
GST/HST	12,715	10,777
Employers and non-residents	85	108
Excise taxes and duties and miscellaneous charges	81	50
Total	61,891	55,156

6. Amounts payable to provinces

The following table gives details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

	2018	2017
	(in millions of dollars)	
Amounts payable to Quebec:		
Quebec sales tax in respect of selected listed financial institutions	201	150
Individual income tax withholdings	173	175
GST refunds issued by Quebec	85	101
Provincial share of the tobacco civil settlements (note 4)	29	71
Other payables	2	2
Total	490	499

The CRA is acting as an agent for the provinces under the tobacco civil settlements. The CRA's liability to the provinces for their expected share of the settlement amounts is limited to the amounts that will ultimately be collected from the tobacco companies.

The Department of Finance makes payments out of the Consolidated Revenue Fund to provinces, territories and First Nations for taxes which the CRA administers. These amounts payable to provinces, territories, and First Nations are not recorded in these financial statements because they are outside the CRA's responsibility.

The CRA received \$281 million in Nova Scotia worker's compensation payments during the year (\$272 million in 2017), these payments are transferred directly to the province. Since this is a flow through arrangement, it is not reported as administered revenues.

7. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST for non-resident registrants and certain licensees for excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table shows activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

	2018	2017
	(in millions of dollars)	
Balance, beginning of year	205	190
Receipts and other credits	50	44
Payments and other charges	(32)	(29)
Balance, end of year	223	205

8. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the fund) and administered liabilities payable by the CRA out of the fund.

The net cash deposited in the Consolidated Revenue Fund of the Government of Canada includes amounts the CRA receives on behalf of the federal government, provinces, territories, and other organizations, less refunds and payments issued from the fund during the year.

The following table shows the change in the net amount due to the Consolidated Revenue Fund during the fiscal year:

	2018	2017
	(in millions of dollars)	
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the beginning of the year	60,275	58,812
Total administered revenues and pension contributions	430,331	402,368
Total net administered expenses and recoveries	(35,096)	(32,506)
Revenues paid or payable directly to a province	(390)	(300)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(389,249)	(368,099)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year	65,871	60,275

9. Taxes under objection

Taxes under objection include previously assessed taxes where the taxpayer filed a notice of objection to the CRA. For cases where it has been determined that the CRA had little or no discretion to avoid settlement, the amounts to be paid have been recorded in the amounts payable to taxpayers or in reduction of the amounts receivable from taxpayers, as applicable. All other cases amount to \$17.7 billion as of March 31, 2018 (\$20.2 billion for 2017).

10. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are being appealed to the Tax Court of Canada, the Federal Court of Canada, or the Supreme Court of Canada. The amounts to be paid in respect of the cases identified as likely to be ruled in favour of the taxpayer have been recorded in the amounts payable to taxpayers or in reduction of the amounts receivable from taxpayers, as applicable. The extent of these cases has not been disclosed as it could have an adverse effect on their outcome. Cases for which the likelihood cannot be determined, or for which a reasonable estimate of the potential loss cannot be made, represent \$6.6 billion as of March 31, 2018 (\$6.7 billion for 2017).

11. Goods and services tax revenues

The GST reported on the Statement of Administered Revenues and Pension Contributions includes the federal portion of HST. It is net of input tax credits (ITC), rebates, and the GST quarterly tax credit for low-income individuals and families that the CRA administers. It does not include GST revenues on imported goods, which are administered and reported by the Canada Border Services Agency. The CRA has sole responsibility for administering all ITC, including those claimed on imported goods. ITC relating to GST on imports are not accounted for separately from ITC relating to GST on domestic transactions.

The following table shows details of the GST revenues that the CRA administers for the Government of Canada as reported in the Statement of Administered Revenues and Pension Contributions:

	2018	2017
	(in millions of dollars)	
Gross GST/HST revenues	286,773	269,151
ITC	(225,971)	(212,609)
Provincial portion of HST	(35,735)	(33,233)
GST revenues net of ITC	25,067	23,309
GST rebates	(6,560)	(6,191)
GST quarterly tax credits for low-income individuals and families	(4,579)	(4,465)
GST revenues	13,928	12,653

12. Interest, penalties, and other revenues

Various tax legislations give the CRA the authority, under certain conditions, to assess interest related to taxes due and penalties related to non-compliance with regulations by taxpayers. Interest is charged on overdue balances using rates determined quarterly, which in most cases are based on the ninety day Treasury Bills rate rounded plus 4%. The interest rate applicable as at March 31, 2018 on most overdue balances was 5% (5% in 2017). The CRA has the authority to waive or cancel the interest and penalties that would normally be charged under certain circumstances such as processing delays caused by the CRA, financial hardship experienced by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments.

The following table gives details on interest, penalties, and other revenues that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	2018	2017
	(in millions of dollars)	
Gross interest and penalties	4,890	4,749
Interest and penalties waived or cancelled under authority of the <i>Income Tax Act</i> and <i>Excise Tax Act</i>	(588)	(671)
Net interest and penalties	4,302	4,078
Fines imposed under various acts	7	6
Other revenues	1	1
Interest, penalties, and other revenues	4,310	4,085

13. Provincial portion of harmonized sales tax

CRA administers the provincial portion of the HST for the provinces of Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador and Prince Edward Island as well as returns for the period from July 2010 to March 2013 for British Columbia. CRA recorded these revenues in accordance with the accounting policies described in note 2.

The provincial portion of HST reported on the Statement of Administered Revenues and Pension Contributions is net of input tax credits (ITC), rebates and credits accounted as tax concessions. It includes the recaptured ITC, which applies to certain types of supplies purchased by large businesses. It does not include the provincial portion of HST collected on imported goods, which is administered and reported by the Canada Border Services Agency.

The following table details the provincial portion of HST revenues as reported in the Statement of Administered Revenues and Pension Contributions:

	2018	2017
	(in millions of dollars)	
Provincial portion of HST	35,735	33,233
Provincial portion of HST rebates	(1,103)	(1,136)
Recaptured ITC	185	344
Transitional tax	(13)	15
HST provincial rebates	(4,546)	(4,257)
Provincial portion of HST net revenues before credits	30,258	28,199
Provincial sales tax credits		
Ontario harmonized sales tax credit	(1,343)	(1,304)
Newfoundland and Labrador harmonized sales tax credit	(118)	(87)
New Brunswick sales tax credit	(100)	(75)
Nova Scotia affordable living tax credit	(65)	(65)
Prince Edward Island sales tax credits	(7)	(7)
British Columbia harmonized sales tax credit	(2)	(4)
Total provincial sales tax credits	(1,635)	(1,542)
Provincial portion of HST	28,623	26,657

14. Other revenues

The following table gives details of other revenues the CRA administers for provincial and territorial governments and First Nations as reported in the Statement of Administered Revenues and Pension Contributions.

	2018	2017
	(in millions of dollars)	
Quebec sales tax in respect of selected listed financial institutions	390	300
First Nations income tax	28	23
First Nations sales tax and GST	24	26
Total	442	349

15. Pension contributions, interest, and penalties administered for the Canada Pension Plan

The following table shows details of the transactions the CRA administers for the Canada Pension Plan as reported in the Statement of Administered Revenues and Pension Contributions:

	2018	2017
	(in millions of dollars)	
Pension contributions	48,318	46,876
Interest and penalties	197	166
Total	48,515	47,042

16. Related-party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. These transactions all take place in the normal course of business based on the provisions of the *Income Tax Act*, *Excise Tax Act* and established directives and procedures.

The individuals income tax, Employment insurance premiums and Canada Pension Plan contributions deducted at source from employees by federal departments and other organizations are declared and transferred to the CRA, and are included in the revenues and pension contributions administered by CRA. Employment insurance premiums include the federal government employer share.

The GST collected by federal government departments and other organizations is declared and transferred to the CRA, and included in the GST revenues and the provincial portion of HST. The GST administered by the CRA includes the GST that federal departments and some organizations pay to their suppliers on domestic purchases.

The CRA administers corporation's income tax payable by certain Crown corporations. Finally, the CRA also administers a refund set-off program that provides for individuals tax refunds to be used to pay debts owed under federal, provincial, or territorial programs.

In addition to the above transactions, which are included in these financial statements, the CRA provides collection services to the Canada Border Services Agency under Part V.I of the *Customs Act*. It also provides collection services to Employment and Social Development Canada for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan*, and the *Old Age Security Act*. The related payments are made directly to either the Canada Border Services Agency or Employment and Social Development Canada, who are responsible for their

deposits to the Consolidated Revenue Fund, as well as their accounting and reporting. These payments are not recorded in the CRA's accounts.

17. Canada child benefit and phasing out of the child tax benefit and the universal child care benefit

As of July 1st 2016, the CRA has begun to administer the Canada child benefit (CCB) announced in the federal budget, which was tabled in Parliament on March 22, 2016. It replaced the child tax benefit (CTB) and the universal child care benefit (UCCB). Similar to the CTB, the CCB is paid monthly and benefits are income tested and not taxable.

The CRA will also continue to administer retroactive payments for the CTB and the UCCB for a period of 10 years after the original entitlement period.

FINANCIAL STATEMENTS DISCUSSION AND ANALYSIS ADMINISTERED ACTIVITIES (UNAUDITED)

INTRODUCTION

The Financial Statements – Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the Canada Revenue Agency for the Government of Canada, provinces, territories, First Nations, and other government organizations. Revenues and expenses are recorded on an accrual basis.

TAX REVENUES

The Canada Revenue Agency collects the majority of federal tax revenues. Other agencies and departments, such as the Canada Border Services Agency, account for the balance of total federal tax revenues reported in the Public Accounts of Canada. For further information on the Government of Canada's total revenues, please refer to the Annual Financial Report of the Government of Canada, available at www.fin.gc.ca/purl/afr-eng.asp.

REVENUES ADMINISTERED FOR THE GOVERNMENT OF CANADA (\$ millions)

	2018	2017	+ (-)	%
Income tax revenues				
Individuals and Trusts	153,668	143,793	9,875	6.9%
Corporations	47,805	42,215	5,590	13.2%
Non-resident tax withholdings	7,845	7,072	773	10.9%
	<u>209,318</u>	<u>193,080</u>	<u>16,238</u>	<u>8.4%</u>
Other taxes, duties, and charges				
Goods and services tax	13,928	12,653	1,275	10.1%
Energy taxes	5,671	5,552	119	2.1%
Other excise taxes and duties	3,708	3,639	69	1.9%
Air travellers security charge	823	768	55	7.1%
	<u>24,130</u>	<u>22,612</u>	<u>1,518</u>	<u>6.7%</u>
Employment insurance premiums	21,533	22,537	(1,004)	(4.5%)
Interest, penalties, and other revenues	4,310	4,085	225	5.5%
	<u>259,291</u>	<u>242,314</u>	<u>16,977</u>	<u>7.0%</u>
Revenues administered for the Government of Canada	259,291	242,314	16,977	7.0%

Revenues administered for the Government of Canada were \$259,291 million in 2018, \$16,977 million higher than in 2017. The increase in revenues is mainly due to sustained economic growth.

Individuals and trusts income tax

Individuals and trusts income tax revenues increased by \$9,875 million or 6.9%. The increase is due to higher employment and wages, the negative impact of tax planning observed in fiscal year 2017, and to a lesser extent, federal tax legislative changes.

Corporations income tax

Corporations income tax revenues increased by \$5,590 million or 13.2%. The increase is due to strong corporate earnings driven by sustained economic growth, in particular in the financial and manufacturing sectors.

Non-resident tax withholdings

Non-resident tax withholdings revenues increased by \$773 million or 10.9%. The increase is due to the growth in investment income paid to non-residents as a result of strong corporate profits.

Goods and services tax (GST)

GST revenues increased by \$1,275 million or 10.1%. The increase is due to the growth in retail sales.

Energy taxes

Energy taxes revenues increased by \$119 million or 2.1%. The increase reflects the growth in motive fuel consumption during the year.

Other excise taxes and duties

Other excise taxes and duties revenues increased by \$69 million or 1.9%. The growth reflects the increase of duty rates on tobacco and alcoholic beverages, partly offset by a decline in tobacco consumption.

Air travellers security charge

Air travellers security charge revenues increased by \$55 million or 7.1%. The increase is due to higher air passenger traffic.

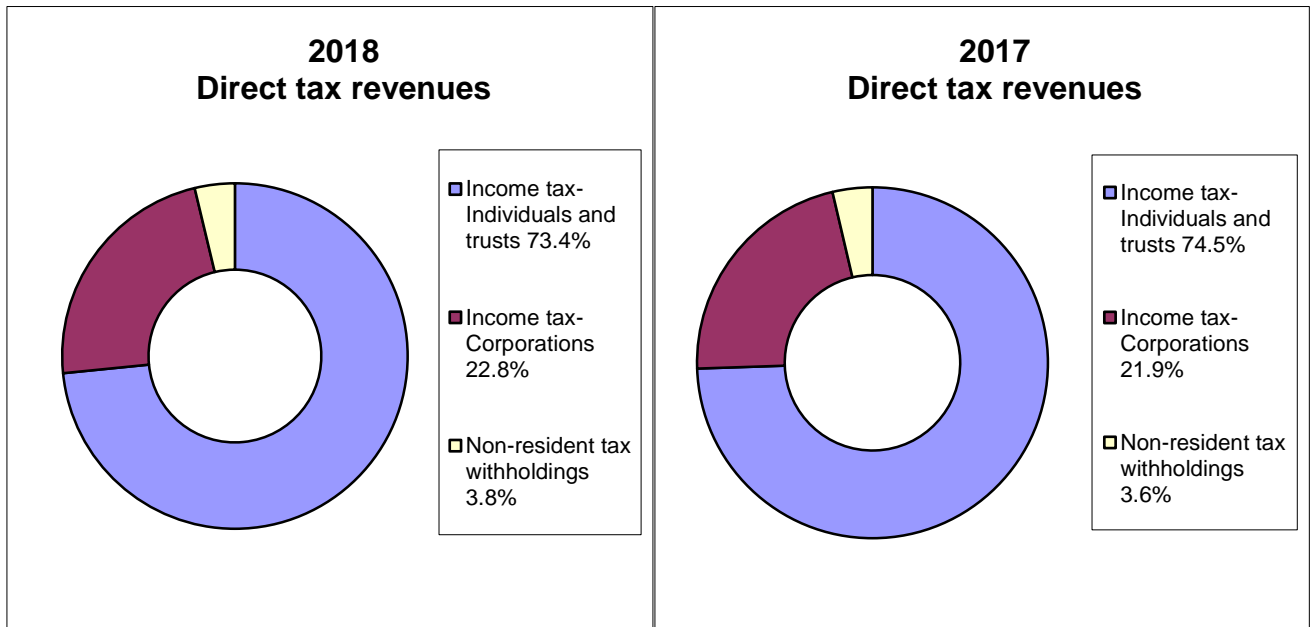
Employment insurance premiums

Employment insurance premiums revenues decreased by \$1,004 million or 4.5%. The decrease is due to the reduction in the employment insurance premium rate in 2017, offset in part by the growth in employment and wages.

Interest, penalties, and other revenues

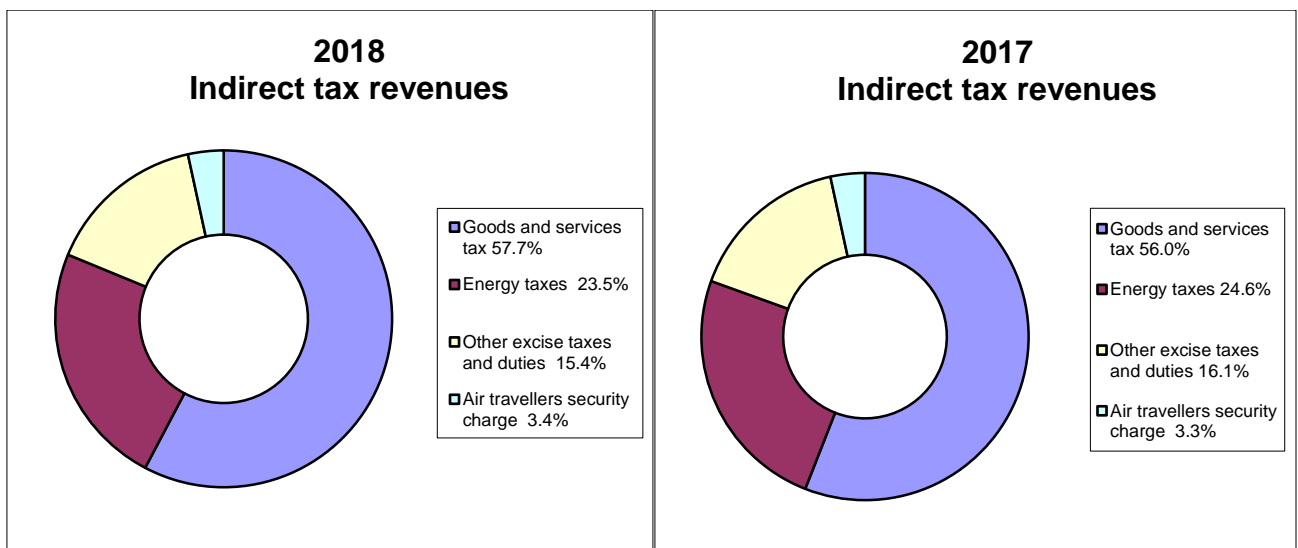
Interest, penalties, and other revenues increased by \$225 million or 5.5%. The increase reflects higher arrears interest revenues and transfer pricing penalties for corporations in fiscal year 2018.

Figure 1 – Direct tax revenues



As shown in Figure 1, the distribution of direct tax revenues remained stable in 2018.

Figure 2 – Indirect tax revenues



As shown in Figure 2, the distribution of indirect tax revenues remained stable in 2018.

REVENUES ADMINISTERED FOR PROVINCIAL AND TERRITORIAL GOVERNMENTS, AND FIRST NATIONS (\$ millions)

	2018	2017	+ (-)	%
Income tax revenues				
Individuals and Trusts	71,152	65,085	6,067	9.3%
Corporations	22,308	20,921	1,387	6.6%
	93,460	86,006	7,454	8.7%
Provincial portion of harmonized sales tax	28,623	26,657	1,966	7.4%
Other revenues	442	349	93	26.7%
Revenues administered for provincial and territorial governments and First Nations	122,525	113,012	9,513	8.4%

Revenues administered for the provincial and territorial governments and First Nations (FN) were \$122,525 million in 2018, \$9,513 million higher than in 2017. The increase in revenues is mainly due to sustained economic growth.

Individuals and trusts income tax

Individuals and trusts income tax revenues increased by \$6,067 million or 9.3%. The increase is due to higher employment and wages, the negative impact of tax planning observed in fiscal year 2017, and various provincial tax legislative changes.

Corporations income tax

Corporations income tax revenues increased by \$1,387 million or 6.6%. The increase is due to strong corporate earnings driven by sustained economic growth, particularly in the financial and manufacturing sectors.

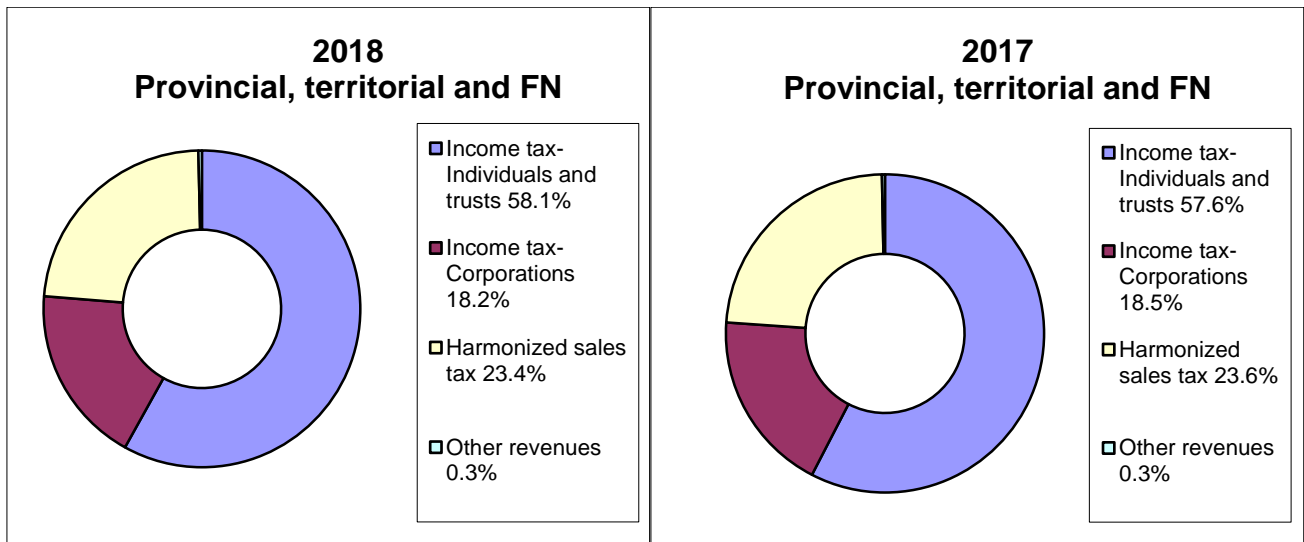
Provincial portion of harmonized sales tax (HST)

Provincial HST revenues increased by \$1,966 million or 7.4%. The increase is due to the growth in retail sales.

Other revenues

Other revenues increased by \$93 million or 26.7%. The increase is due mostly to the growth in Quebec sales tax in respect of selected listed financial institutions.

Figure 3 – Revenues administered for the provincial and territorial governments and First Nations



As shown in Figure 3, the distribution of provincial, territorial, and First Nations revenues remained stable in 2018.

PENSION CONTRIBUTIONS, INTEREST, AND PENALTIES ADMINISTERED FOR THE CANADA PENSION PLAN (\$ millions)

	2018	2017	+ (-)	%
Pension contributions, interest, and penalties administered for the Canada Pension Plan	48,515	47,042	1,473	3.1%

Pension contributions, interest, penalties, and other revenues administered for the Canada Pension Plan were \$48,515 million in 2018, \$1,473 million more than in 2017. The increase is due to higher employment and wages.

**EXPENSES AND RECOVERIES ADMINISTERED FOR THE GOVERNMENT OF CANADA
(\$ millions)**

	2018	2017	+ (-)	%
Federal administered expenses	30,789	28,632	2,157	7.5%
Federal administered recoveries	(2,078)	(1,754)	(324)	18.5%
Net expenses and recoveries administered for the Government of Canada	28,711	26,878	1,833	6.8%

Net expenses and recoveries administered for the Government of Canada

Federal administered expenses increased by \$2,157 million or 7.5%. The increase reflects a higher number of recipients and a full year implementation of the Canada child benefit program that replaced the child tax benefit and the universal child care benefit programs in July 2016. It also reflects a higher doubtful accounts expense, which rose \$530 million due to higher write-offs in all revenue streams. Federal administered recoveries increased by \$324 million or 18.5%. The increase is due to the growth in old age security benefits and in the average taxable income.

EXPENSES ADMINISTERED FOR PROVINCIAL AND TERRITORIAL GOVERNMENTS AND THE CANADA PENSION PLAN (\$ millions)

	2018	2017	+ (-)	%
Provincial and territorial administered expenses	6,306	5,553	753	13.6%
Doubtful accounts expense administered for the Canada Pension Plan	79	75	4	5.3%

Expenses administered for provincial and territorial governments

Expenses administered for provinces and territories increased by \$753 million or 13.6%. The increase is due to higher British Columbia and Ontario film and television production services tax credits, as well as the full year's implementation of the Alberta climate leadership adjustment rebate and the Alberta child benefit.

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

Fiscal Year 2017-2018

1. Introduction

This document provides summary information on the measures taken by the Canada Revenue Agency (CRA) to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management, assessment results, and related action plans.

Detailed information on the CRA's authority, mandate, and core responsibilities can be found in the [Departmental Results Report](#) and the [Departmental Plan](#).

2. CRA system of internal control over financial reporting

2.1 Internal control management

The CRA has a well-established governance and accountability structure to support the CRA's assessment efforts and oversight of its system of internal control. A CRA internal control management framework, approved by the Commissioner and the Board of Management, is in place and includes:

- organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- a code of values and ethics;
- ongoing communication and training on statutory requirements and policies and procedures for sound financial management and control; and
- regular updates on internal control management as well as the provision of related assessment results and action plans to the Commissioner, senior management and the Audit Committee of the Board of Management.

The CRA Resource Management Committee provides support to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in relation to control activities. It is chaired by the CFO and has representatives from each branch and region at the executive level.

In addition, the Audit Committee of the Board of Management provides advice on the adequacy and functioning of the CRA's risk management, and control and governance frameworks and processes.

2.2 Service arrangements relevant to financial statements

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

Common Arrangements

- Public Services and Procurement Canada centrally administers the payments of salaries and the procurement of some goods and services in accordance with the CRA's Delegation of Authority and provides accommodation services.

- Treasury Board of Canada Secretariat provides the CRA with information used to calculate various accruals and allowances.
- Department of Justice provides legal services to the CRA.
- Shared Services Canada provides information technology (IT) infrastructure services to the CRA in the areas of data centres and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and the CRA.

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.
- Department of Finance Canada provides the CRA with the federal and provincial shares of Goods and Services Tax/Harmonized Sales Tax (GST/HST) revenues that are used to determine provincial payments for the HST.
- Canada Border Services Agency provides the CRA with the amount of GST revenues collected from importers, which is used in the calculation of the provincial portion of the HST revenues.
- Department of Finance Canada and Employment and Social Development Canada provide estimates of Canada Pension Plan and Employment Insurance revenues respectively for the months of January to March.

Other government departments rely on the CRA for the processing of certain transactions or information that affect financial statements as follows:

- Canada Border Services Agency for information technology services which includes testing for general computer controls, as well as 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;
- Department of Finance Canada for the determination of tax receivables and payables under Tax Collection Agreements (TCAs) with provincial and territorial governments and First Nations; and
- Employment and Social Development Canada for the collection of its accounts receivable and the administration of a number of activities related to the Canada Pension Plan and Employment Insurance Operating Account.

3. CRA assessment results during fiscal year 2017-2018

3.1 Design effectiveness testing of key controls

In 2017-2018, the CRA completed the design effectiveness testing of return collection and entry, assessment and reassessment and segregation of duties of the Excise Taxes Program, which included the general computer controls related to this program area. Additionally, the CRA completed design effectiveness testing of the Collections/payments process for all tax programs, which included the general computer controls related to this process.

As a result of the Collections/payments design effectiveness testing, the CRA identified the need to improve review processes and enhance segregation of duties related to the corporate suspense accounts workload. Controls were designed and implemented by March 31, 2018 to address these deficiencies.

As a result of the general computer controls testing for the above noted programs, the CRA identified the following required remediation:

- Stronger controls are required to prevent and detect unauthorized access and changes to the systems. The deficiencies are known to management and the CRA is taking action to address them.

3.2 Operating effectiveness testing of key controls

In 2017-2018, the CRA completed operating effectiveness testing of the processes related to return collection and entry, assessing and reassessing and master data maintenance for the Corporation Income Tax (T2) Program. No significant issues were noted.

3.3 Ongoing monitoring of key controls

In 2017-2018, the CRA completed planned ongoing monitoring of the following processes:

1. Entity-level controls;
2. General computer controls; and
3. All other business processes:
 - a. Payroll
 - b. Procurement to pay
 - c. Capital assets
 - d. Budgeting
 - e. Financial close and reporting

As a result of ongoing monitoring of key controls, the CRA noted a need for improvement in compensation processes with respect to monitoring and timeliness. The deficiencies are known to management and actions are being taken to address them. Several recommendations have already been implemented and the balance is scheduled to be implemented by September 30, 2018.

4. CRA Action Plan

4.1 Progress during fiscal year 2017-2018

The CRA continued to make progress in assessing and improving its key controls. The following table summarizes the CRA's progress based on the plans identified in the previous fiscal year's Annex.

Progress during fiscal year 2017-2018	
Element in previous year's action plan	Status
Agency Activities	Ongoing monitoring testing was completed for entity-level controls, general computer controls, and Agency business processes including payroll, procurement to pay, capital assets, budgeting, and financial close and reporting.
Collections/payments process	The control framework was established and testing of the design and implementation of controls was completed and action plans were developed to address all findings.
Corporation Income Tax (T2) Program	Testing of the operating effectiveness for return collection and entry, assessing and reassessing and master data maintenance was completed and action plans were developed to address all findings.

Trust Income Tax (T3) Program	Testing of the operating effectiveness for return collection and entry, assessing and reassessing and master data maintenance was commenced.
Excise Taxes Program	The control framework for return collection and entry and assessing and reassessing was established, testing of the design and implementation of controls was completed and action plans were developed to address all findings.
Follow-up of activities requiring remediation from previous assessments	<p>The CRA has followed up on action plans from the:</p> <ul style="list-style-type: none"> • 2016-2017 Agency Activities testing as part of ongoing monitoring. • GST/HST design effectiveness assessment as at March 31, 2014. • Non-resident income tax design effectiveness assessment as at March 31, 2016. • Benefits and Disbursements design and effectiveness assessment as at March 31, 2017. <p>Overall results have been positive and the majority of the recommendations made have been implemented. However, the following item that was identified in prior years remained outstanding in 2017-2018:</p> <ul style="list-style-type: none"> • Implementation of a system control with respect to recording and modifying non-financial information in the Non-Resident Source Deductions system. The system control was designed and implemented by May 31, 2018 to address this deficiency.

4.2 Status and action plan for the next fiscal year and subsequent years

The CRA has continued to make progress on assessing its internal controls over financial reporting throughout the numerous programs that the CRA administers. It is recognized that implementation for all its processes requires multi-year initiatives. After design effectiveness and operational effectiveness testing are complete, the CRA will be applying its rotational ongoing monitoring plan to reassess control performance on a risk basis across all control areas.

Status and action plan for the next fiscal year and subsequent years			
Key control areas	Design effectiveness testing and remediation	Operational effectiveness testing and remediation	Ongoing monitoring rotation ^{Note 1}
Administered Activities under the Tax Collection Agreements with the provinces and territories			
Individual Income Tax (T1) (legacy system) ^{Note 2}	Complete		
Unapplied taxes/source deductions (T1) ^{Note 2}	Complete		
Individual Income Tax (T1) (including T1 System Redesign) ^{Note 2}	Complete / 2018-2019 ^{Note 2}	2020-2021	Future years

Corporation Income Tax (T2)	Complete	Complete	2019-2020
Trust Income Tax (T3)	Complete	2018-2019	Future years
Other Administered Activities			
GST/HST	Complete	2019-2020	Future years
Non-resident Income Tax	Complete	Future years	Future years
Benefits	Complete	2020-2021	Future years
Disbursements	Complete	Future years	Future years
Excise Taxes	Complete	2019-2020	Future years
Collections / payments	Complete	Future years	Future years
Common controls ^{Note 3} - Legislation - Reporting - Segregation of duties	Completed with other assessments	2018-2019	Future years
Agency Activities			
Entity level controls ^{Note 4}	Complete	Complete	2018-2019
IT general controls under CRA management ^{Note 4}	Complete	Complete	2018-2019
Agency Activities - Payroll - Procurement to pay - Capital assets - Budgeting - Financial close and reporting	Complete	Complete	2018-2019

Note 1: The frequency of the ongoing monitoring of key control areas is risk-based and occurs over a three-year cycle with the exception of high risk areas, which are tested on an annual basis, or controls with prior year exceptions that have completed action plans, which are tested in the following fiscal year.

Note 2: The legacy T1 system is being upgraded through the T1 System Redesign initiative. This initiative is a multi-year project resulting in a significant modification to the systems and business processes related to the processing of T1 returns. Due to the magnitude of these changes, it was determined that design effectiveness testing of the new processes and systems would be appropriate as a next step.

Note 3: Common controls are controls that are performed by the same organization, using a common process regardless of the program.

Note 4: Entity Level Controls and IT general controls under CRA management are also evaluated through the Administered Activities projects.