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Report of the Auditor General of Canada

CHAPTER 9

Offshore Banking—Canada Revenue Agency



Office of the Auditor General of Canada

OAG

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CHAPTER 9

Offshore Banking—Canada Revenue Agency

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected based on their significance. While the Office may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and Office policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance,
- gather the evidence necessary to assess performance against the criteria,
- report both positive and negative findings,
- conclude against the established audit objectives, and
- make recommendations for improvement when there are significant differences between criteria and assessed performance.

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

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Offshore Banking— Canada Revenue Agency

Main Points

What we examined

Canadian income tax laws require taxpayers to file accurate and comprehensive tax returns. The Canada Revenue Agency is mandated to administer the laws to ensure compliance.

In Canada, the major criterion for determining liability for tax is residency. All Canadian residents are responsible to pay income tax on their worldwide income; in general, income is taxable in Canada regardless of the country in which it was earned or generated. When Canadian residents declare all income earned offshore, they are abiding by Canadian tax laws. It is those who use bank secrecy laws in other countries to avoid declaring revenue to the Agency that are of concern.

In recent years, the Canada Revenue Agency has received lists and information with names of supposed Canadian taxpayers with offshore accounts. The first list that the Agency received, in 2007, was provided by an informant and contained information on 182 supposed Canadians with accounts at a bank in Liechtenstein. The Agency continues to receive large amounts of information about taxpayers with investments in other countries.

Our audit looked only at the Liechtenstein bank list. We examined whether the Agency adequately conducted compliance actions for those named on the Liechtenstein bank list and used the intelligence gained to confirm or update its detection and audit procedures for offshore banking.

Audit work for this chapter was completed on 31 August 2013. More details on the conduct of the audit are in **About the Audit** at the end of this chapter.

Why it's important

While the issue of tax havens has always been of interest, it has become particularly contentious in recent years. The Organisation for Economic Co-operation and Development has made it a goal to eliminate tax havens through better information sharing, and has proposed various reporting tools for sharing information between countries.

Given the large number of possible Canadian taxpayers on the newer lists, as well as new legislation that will result in more information for

the Agency, it has to be ready to deal with the increased workload in this area. If taxpayers think that they can avoid declaring revenue by earning it offshore, then compliance may decline and erode Canada's revenue base.

What we found

- Overall, the Agency managed the Liechtenstein list as intended, with the information and tools it had. It organized the 182 names on the list into 81 family groups and followed its procedures to determine which files to audit. Of the 81 groups, 35 were not audited because the Agency determined that the taxpayers were not residents of Canada or were deceased, or it was unable to identify or locate the taxpayers. For the taxpayers the Agency was unable to locate, our audit showed that on the basis of the information it had, there was little more the Agency could do to confirm the identity and location of those taxpayers. Of the 46 audits completed, 23 led to reassessments totalling \$24.651 million in federal tax, interest, and penalties.
- The Agency signed agreements with some taxpayers to gather information about the structure of the investments and the details of the income earned. Taxpayers agreed to give full disclosure, pay amounts owing by a stipulated date, and waive their rights to appeal. The Agency agreed to waive referrals for potential criminal investigation. The agreements were a key tool for the Agency to learn about the set-up of the offshore accounts—information that it can then use to audit other taxpayers who have similar arrangements.
- Auditing based on such extensive informant leads for offshore accounts was a new audit area for the Agency. For the resulting audits, the Agency relied on informal approaches, such as communication with auditors via presentations, emails, and ongoing dialogue with Agency headquarters. The Agency introduced some new audit procedures, and the work it has initiated on detecting non-compliant taxpayers is promising. However, it is not prepared for the growing workload in this area. The Agency needs to formalize and communicate its procedures to make sure that it can handle the increased amounts of information it is receiving.

The Agency has responded. The Agency agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Introduction

9.1 Canadian income tax laws require taxpayers to file accurate and comprehensive tax returns. The Canada Revenue Agency (the Agency) has a mandate to administer these laws to ensure compliance, while protecting Canada's revenue base. In Canada, the major criterion for determining liability for tax is residency, not citizenship. In general, residents of Canada are liable for income tax in Canada on their worldwide income, regardless of the country in which it was earned or generated.

9.2 Canadian taxpayers are permitted to have offshore funds. When taxpayers resident in Canada declare all income earned offshore, they are abiding by Canadian tax laws; those who use bank secrecy laws in **tax havens** to avoid declaring income are a concern to the Agency.

9.3 The issue of offshore banking is of international interest. The Organisation for Economic Co-operation and Development has made it a goal to eliminate tax havens through better information sharing, and has proposed various reporting mechanisms for sharing information between countries, along with more tax treaties.

9.4 In 2007, the Agency received a list of likely Canadian residents who may have had undeclared revenue in offshore accounts in Liechtenstein. Since then, the Agency has received information from at least two other sources indicating that there may be more Canadian residents who may have undeclared revenue in offshore accounts in other countries.

Focus of the audit

9.5 Our audit looked at how the Agency managed the Liechtenstein list. The objective of our audit was to determine whether the Agency had taken adequate action to audit those named in the Liechtenstein bank list and whether the Agency had used the intelligence gained to confirm or update its detection and audit procedures for offshore banking.

9.6 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Tax haven—A jurisdiction with no taxes or a very low rate of tax, a lack of transparency in the operation of its tax system, and a lack of effective exchange of information with other countries. Tax havens usually also have strict bank secrecy laws. There is often little or no economic activity in a tax haven.

Source: Canada Revenue Agency

Observations and Recommendations

Following standard procedures

9.7 The Liechtenstein information came to the Canada Revenue Agency (the Agency) in 2007 from an informant. There were 182 names on the list provided to the Agency, which the Agency organized into 81 family groups. The informant also provided documentation on the Liechtenstein accounts or investments of some of those on the list; for others, only the names, dates of birth, and dollar amounts of the accounts were provided.

Sufficient work was done to justify the decision not to audit certain taxpayers

9.8 To determine who should be audited, the Agency first had to determine who did not require auditing and who could not be audited. Given the incomplete information available to the Agency, there were challenges in identifying some of the taxpayers, determining whether they were Canadian residents, and verifying whether the income had already been reported.

9.9 We examined whether the Agency followed its procedures consistently to identify which taxpayers did and did not require an audit. Of the 81 family groups, 46 were audited and 35 were not.

9.10 We reviewed the information available to the Agency as well as the steps it took to identify who could not be audited. The reasons for the 35 family groups not being audited included the fact that the Agency determined them to be non-resident or deceased, or that it simply could not identify or locate them. For example, there were members of 3 family groups for whom the Agency had identified a social insurance number but could not confirm residency.

9.11 To locate taxpayers, the Agency conducted searches on its systems as well as on the Internet, and used social media and other databases. Despite these steps, there was a large number of taxpayers that the Agency was unable to locate (41 taxpayers within 23 of the family groups). We reviewed the work that the Agency had conducted to attempt to locate them and found it sufficient because, without additional identification information, there was little more the Agency could do.

The Agency followed its standard procedures in most of the audits

9.12 When the Agency conducts an audit, it must follow standard procedures. However, auditors have the discretion to design their audit plans in response to specific circumstances. We examined what procedures the Agency had in place to conduct these audits. We found that in the case of the Liechtenstein audits, the Agency established several mandatory steps. One of these steps was to provide questionnaires to the taxpayers to gather as much information as possible. Furthermore, because the information in the Agency's possession came from an informant, the Agency took steps to protect the informant through **informer privilege**.

Informer privilege—A common-law assurance given to members of the public who provide the Crown with information that assists in identifying non-compliance with the acts the Agency administers; this is usually an assurance that the Agency will not disclose the fact that they did provide such information, thus removing or minimizing the risk of retaliation by the people they are informing on.

9.13 After screening out the taxpayers it would not audit, the Agency began assigning files to auditors in May 2007. In all, 46 family groups were assigned to auditors. Auditors were careful not to disclose to the taxpayers exactly what information the Agency had—partly to protect the informant. In some cases, the Agency needed to obtain details from the taxpayers to gather missing information. As part of the audit procedures, the auditors identified the source of the funds for almost all the accounts audited, to make sure that the capital balances had been properly taxed.

The Agency conducted most audits without undue delay, but timeline standards were not established

9.14 The Liechtenstein project took approximately six years to complete. Several factors contributed to the duration of this project:

- The audits were atypical: they were the first offshore audits that the Agency had undertaken on the basis of such an extensive informant lead.
- The investments themselves were atypical of traditional Canadian investment structures.
- The foreign entities involved took a long time to provide information to the taxpayers, if at all. The information that did arrive often required translation.
- Taxpayers or their representatives caused many of the delays, as many of them initially denied their ownership of these offshore accounts. They also delayed in providing information and in responding to Agency requests for information.

9.15 We examined whether auditors and team leaders ensured that files were completed without undue delay as specified in Agency audit manuals. We found that the manuals did not define the time limits of undue delay and that no standards had been established for the number of hours that should be devoted to each file or for the overall duration of the audit for these files, even though Agency guidance requires these standards.

9.16 Having time standards for completing files is important, because it provides an indicator for staff to gauge when their work may be taking too long or when a decision to reprioritize workloads may be needed.

9.17 In our discussions, staff indicated that any situation where an audit that was under way had not been worked on for some time constituted an undue delay on the part of the Agency. Our review of the 46 files audited by the Agency revealed 5 instances where, during the audit, the Agency was not actively working on the file (for up to two years in 1 case, at least one year in 3 cases, and two months in the fifth). In these cases, the delays were caused by staffing issues or referrals to other areas of the Agency; for taxpayers who had been reassessed, the Agency waived interest charges for that time. If a taxpayer or representative caused a delay, interest continued to accrue on unpaid balances.

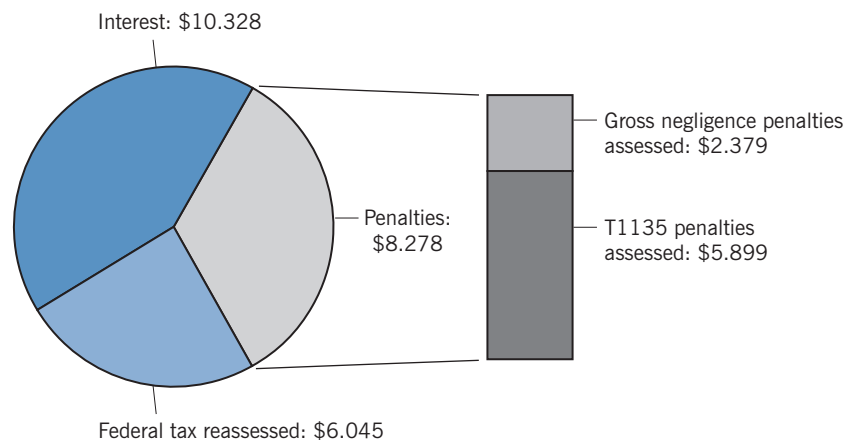
9.18 Auditors also had to consider whether penalties should be applied to the files audited. We examined whether the Agency had followed proper procedures in applying the following two types of penalties to which taxpayers were potentially subject:

- **Gross negligence:** This applies when the taxpayer deliberately makes false statements or omissions. The penalty is the greater of 50 percent of the tax attributable to the false statement or \$100.
- **Non-filing of the T1135 form:** Taxpayers who own foreign property of more than \$100,000 are required to check a box on the T1 tax return and file the T1135 form. This form is required whether or not the taxpayer earned foreign income. There are penalties for not filing the form, for completing it incorrectly, or for filing it late.

9.19 The T1135 form is intended to show the Agency who owns foreign property; the form is an important tool for ensuring that taxpayers report all their income. None of the reassessed taxpayers had been fully compliant in filing this form.

9.20 The Agency's assessments of federal taxes, penalties, and interest, which we reconciled to the Agency's assessing system, totalled \$24.651 million as of 11 September 2013 (Exhibit 9.1). We note that these amounts reported by the Agency do not include any provincial amounts that may have been reassessed.

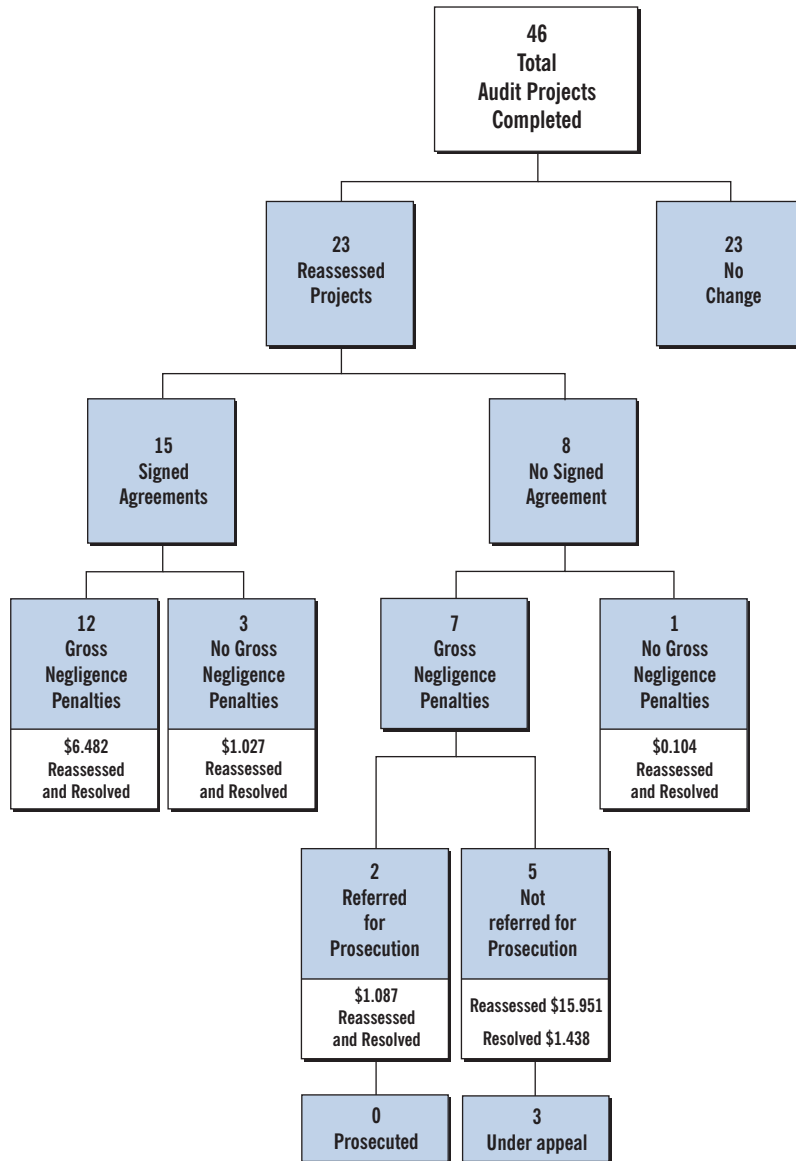
Exhibit 9.1 The Agency assessed penalties and interest in amounts larger than federal taxes (in millions of dollars)



9.21 Of the 46 audits, there were 23 reassessments, all with T1135 penalties and 19 with gross negligence penalties assessed (Exhibit 9.2). Agency staff indicated that they had decided on a case-by-case basis whether to apply penalties. Team leaders and headquarters staff were able to assist them in making these decisions. We found this approach to be consistent with Agency policies.

9.22 We found that the Agency took timely action for most of the Liechtenstein audits. However, since the Agency had not set standards for undue delay, we cannot conclude whether the delays caused by the Agency were excessive.

Exhibit 9.2 Audits with agreements resulted in a higher level of payments to the Agency, but there were no prosecutions (in millions of dollars)



Legend:

Reassessed: Includes federal tax, interest, and penalties reassessed. Does not include provincial taxes reassessed, although they were reassessed where appropriate.

Resolved: Includes payments, liens, write-offs, appeals reversals, and cancellation/waiver of interest through taxpayer relief provisions.

9.23 Recommendation. The Canada Revenue Agency should make its timelines clear to both staff and taxpayers in carrying out audits of offshore accounts.

The Agency's response. Agreed. The Agency is committed to establishing and communicating timelines to both staff and taxpayers involved in conducting audits related to offshore accounts. The Agency has commenced examining timelines for this work and will continue in this regard in the 2013–14 fiscal year with a view to having interim measures in place by 1 April 2014. With the introduction of the Economic Action Plan 2013 tools, the Agency will re-examine timelines with a view to refining and finalizing the measures during the 2015–16 fiscal year. The Agency will continue to inform taxpayers and their representatives, on a case-by-case basis in the course of auditing, of the consequences of failing to provide information or documents as outlined in Information Circular 71-14R3, *The Tax Audit*.

The Agency used agreements that waived referrals for potential criminal investigation to gather information

9.24 Criminal prosecutions are distinct from tax audits. In order to consider prosecuting, the Agency makes a referral to its Criminal Investigations Division, which then decides whether the file should be sent to the Department of Justice Canada for prosecution. In a criminal prosecution, the Agency must ensure that the information obtained will hold up in court. Once a taxpayer learns that he or she is being investigated with prosecution as a possibility, he or she is no longer obliged to provide information to the auditor. Moreover, once a case is referred for possible prosecution, any additional information gathered as part of the civil audit cannot be shared with the Criminal Investigations Division.

9.25 Some of the taxpayers' representatives requested an offer or agreement that would guarantee that no referrals to the Criminal Investigations Division would take place. We learned that the Agency developed such an agreement (summarized in Exhibit 9.3), which 15 of the family groups accepted.

Exhibit 9.3 Summary of the agreement conditions

The taxpayer must	The Agency will
<ul style="list-style-type: none"> • be fully forthcoming, • provide all requested information and documents, • waive his or her right of appeal, and • pay within a specified period. 	<ul style="list-style-type: none"> • waive referral for criminal investigation, • assess all identified revenue, and • determine and apply resulting penalties.

9.26 Agency staff generally felt that the agreement was a good approach for this first-time project, given the limited available information. By entering into this agreement with the taxpayers, the Agency received the information it needed to conduct reassessments. Had the Agency chosen to refer for criminal investigation those cases where it had grounds to do so, it would have been much more difficult to learn how much taxable income had been earned offshore. The agreement was also a key tool for the Agency to learn about the set-up of these offshore accounts. Where the agreements were used, the Agency made a trade-off between obtaining information (by entering into an agreement) and making an example to others (by considering prosecuting taxpayers).

9.27 In cases where the taxpayers had not signed the agreement, we examined the Agency's analysis of whether it should make referrals for criminal investigation. Of the eight files without agreements, the Agency referred two to the Criminal Investigations Division for consideration of prosecution, although the Division did not accept either for further investigation. For the other six files, there were valid reasons that led to the conclusion that no referral would be made, in accordance with Agency procedures. As a result, there were no prosecutions of taxpayers on the Liechtenstein list.

9.28 Although the agreement served a purpose for the Liechtenstein list audits, we have received no analysis from the Agency as to whether such an agreement is appropriate for future offshore-account audits.

9.29 Recommendation. The Canada Revenue Agency should analyze its use of agreements with taxpayers it is auditing, to ensure that their use reflects Agency project and program objectives.

The Agency's response. Agreed. The Agency is committed to ensuring that the use of audit agreements effectively reflects and is consistent with offshore project and program objectives. Analysis will be conducted

immediately to determine characteristics or elements for consideration in determining whether the use of an agreement for any particular project is appropriate. By 1 April 2014, the Agency will ensure that the guidelines for future agreements are communicated to field auditors prior to the commencement of any specific offshore project.

Using gathered information

9.30 One of the goals of this project was for the Canada Revenue Agency (the Agency) to learn how offshore investments were structured and how taxpayers set them up. Likewise, two of the goals of the Agency's Offshore Compliance Strategy are to understand the structure of the financial arrangements and to use that understanding to identify other taxpayers who have similar arrangements.

The Agency has made progress in four main areas to find taxpayers who may have undeclared offshore income

9.31 We examined whether the Agency used the intelligence gained to improve its procedures for detecting Canadian taxpayers with undeclared offshore income without informant information. We found that the Agency has initiated work to find taxpayers with such income, using the four methods discussed below.

9.32 Information already reported to the Agency. During the project, the Agency learned that it already had information reported to it (for example, from certain information slips) that helped to identify taxpayers who had offshore investments; the Agency also determined that it needed to learn how to make better use of the information.

9.33 Voluntary Disclosures Program. Other information comes to the Agency through its Voluntary Disclosures Program, which allows taxpayers to come forward and correct inaccurate or incomplete information or to disclose information they had not previously reported; it also allows taxpayers to avoid being penalized or prosecuted. In the years after the Agency received the Liechtenstein list, the number of voluntary disclosures increased dramatically, and the Agency initiated a project to analyze these disclosures as they relate to taxpayers who have offshore accounts.

9.34 Information requirements about unnamed persons. In Canada, the Agency can use "unnamed person requirements" as a tool to gather information on a group of as-yet unidentified taxpayers that the Agency believes is not reporting income. A common application is for the Agency to issue a requirement to a third party to obtain information for the purpose of verifying compliance of an unnamed person or persons. For example, it may issue a requirement to a

financial intermediary to identify unnamed persons who hold foreign assets or are involved in foreign financial transactions. Because of the work on the Liechtenstein list, the Agency issued six “unnamed person requirements” notices to various financial institutions and has been successful in detecting more undeclared income.

9.35 Information requirements about unnamed persons are a domestic tool only. The Agency has begun issuing these notices to foreign banks operating in Canada, but there are challenges to getting information about offshore investments. Foreign jurisdictions do not have to respond to these types of requests.

9.36 Legislative change. Partly because of its work on the Liechtenstein list, the Agency identified the need for legislative changes related to international cooperation, information-access measures, and administrative measures. The 2013 federal budget included amendments such as a requirement for banks and other institutions to report to the Agency any international fund transfers of more than \$10,000, and the introduction of payments to informants whose information leads to the assessment and collection of additional taxes arising from major international tax non-compliance. Tax treaties and tax information exchange agreements continue to be negotiated.

9.37 Overall, the work that the Agency has initiated to detect non-compliant taxpayers is promising. New legislation gives the Agency more tools to find taxpayers; however, the Agency needs to prepare for the increased volume of information that it will receive as a result of the legislative changes.

The Agency has introduced some new audit procedures, but is not quite prepared for this new line of work

9.38 Basing auditing on such an extensive informant lead for offshore accounts was new for the Agency; its audit approach could benefit from modifications in response to what the Agency learned from its work on the Liechtenstein list. Since 2007, the Agency has received more lists and information about other possible Canadian residents who may have undeclared income from offshore accounts to analyze and audit. The Agency’s workload in this area has grown and is likely to continue to grow.

9.39 We examined whether Agency officials had updated audit procedures stemming from what they had learned on the Liechtenstein audit project. We observed that most of the procedures for the Liechtenstein project were communicated to Agency auditors through

presentations, emails, and ongoing dialogue with Agency headquarters. The auditors working on this project were a small group of experienced professionals who worked closely with headquarters staff.

9.40 We also found that the current audit guide for offshore banking is from 2001 and was developed before the Agency received large informant leads such as the one in 2007. The Agency is starting to develop a wiki-type page for its auditors to allow them to readily share information relevant to the situations they face, such as identifying what penalties to apply or understanding how to gather certain types of information for specific countries or types of institutions. Up-to-date guidance would be useful for auditors. As of the end of our audit, the wiki page was not developed enough to be helpful.

9.41 As previously mentioned, the agreement used in the Liechtenstein audits helped the Agency gather information and assess undeclared income, but removed its ability to prosecute. The Agency told us that the same conditions are not being offered to taxpayers currently being audited as a result of the additional lists it has received. However, auditors have told us that they have offered some of the same conditions in some of the more recent cases. This would not be happening if the guidance were up to date and had been communicated so that objectives were clearly understood.

9.42 For the Liechtenstein files, auditors indicated that taxpayers and their representatives tended to delay in providing information. For their work with the subsequent lists, we have been told that time extensions are not being granted as readily, and that the auditors are using tools such as requirements for information (a formal demand for information from the taxpayer) more quickly.

9.43 Agency project guidelines indicate the need for a final report to document and share what was learned. While we did see evidence of presentations, no report had been prepared. Without a complete analysis and follow-up on areas that could be improved, and with an outdated guide, auditors will not have the tools they need and Agency headquarters will not be able to monitor their progress.

9.44 In 2015, the Agency will start to receive information about international transfers of more than \$10,000. It also expects to receive more lists and information as a result of the new initiative to pay informants. As its workload in this area continues to grow, the approach that the Agency used to inform its auditors for this project is not sustainable.

9.45 Recommendation. The Canada Revenue Agency should ensure that its objectives and audit procedures for offshore accounts reflect lessons learned, and are documented and understood by staff, so that they are ready for the projected increase of work in this area.

The Agency's response. Agreed. The Agency is currently developing an action plan to address structural, procedural, and project delivery plans and will ensure that both the objectives and the audit procedures reflect lessons learned to date with respect to offshore accounts. It will be a staged implementation, with the Offshore Compliance Division structure being implemented in October 2013, with objectives, policies, and procedures being developed and implemented on an ongoing basis throughout the 2013–14 fiscal year. As the Electronic Funds Transfer Program will be implemented in January 2015, further policies and procedures in respect of that program will be implemented by April 2015.

Conclusion

9.46 We concluded that overall, the Canada Revenue Agency adequately conducted compliance actions for those named on the Liechtenstein list. It followed its own procedures to determine which files to audit and how to conduct those audits. Agreements allowed the Agency to learn about the structure of these investments, which was in line with the project goals. The agreements also ensured that the taxes were paid by those taxpayers, but the Agency gave up the right to refer these cases for criminal investigation. The project took six years to complete, due to delays by both the Agency and the taxpayers.

9.47 The Agency has made progress in using intelligence to detect taxpayers who may have undeclared offshore income. It has developed some new audit procedures, but they need to be better communicated to reflect lessons learned from the Liechtenstein list. It is not fully prepared to handle the increased amount of information it is receiving. The Agency needs to ensure consistent and efficient application of corporate objectives in this expanding work area.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set out in *The Canadian Institute of Chartered Accountants Handbook—Assurance*. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

As part of our regular audit process, we obtained management's confirmation that the findings reported in this chapter are factually based.

Objectives

The objectives of this audit were to determine whether the Canada Revenue Agency adequately conducted compliance actions for those named on the Liechtenstein bank list, and whether the Agency used the intelligence gained to confirm or update its detection and audit procedures for offshore bank accounts.

Scope and approach

We focused our audit efforts on the International and Large Business Directorate within the Compliance Programs Branch. The Liechtenstein list was managed by a small team within the Directorate. We did not audit the decisions made by the Criminal Investigations Division on the files referred to it.

Our audit approach included

- interviews of auditors, team leaders, and managers at all of the tax service offices where these Liechtenstein audits were conducted;
- interviews with the management team at Agency headquarters, to learn about the project and, later, to confirm our understanding;
- telephone interviews with auditors working on subsequent offshore files, to confirm changes in approach;
- review and analysis of audit reports, planning documents, audit manuals, and other Agency policies; and
- confirmation of audit data through access to various Agency systems.

Criteria

Criteria	Sources
To determine whether the Canada Revenue Agency adequately conducted compliance actions for those named on the Liechtenstein bank list and used the intelligence gained to confirm or update its detection and audit procedures for offshore bank accounts, we used the following criteria:	
The Canada Revenue Agency followed its procedures consistently to determine whether an audit was needed with respect to those named on the Liechtenstein bank list.	<ul style="list-style-type: none"> • CRA Audit Manual: chapters 9 and 10 • Testimony to the Standing Committee on Finance, 5 February 2013, by the CRA Assistant Commissioner, Compliance Programs Branch
<p>For those taxpayers who were audited, the Agency</p> <ul style="list-style-type: none"> • took action without undue delay; • followed its procedures for concluding on the application of penalties; and • referred the taxpayers to Public Prosecutions Services Canada for prosecution, in accordance with Agency policies and procedures. 	<ul style="list-style-type: none"> • CRA Audit Manual: chapters 6, 10, and 28
The Agency has used the intelligence gained to confirm or update its procedures and apply them to detect Canadian taxpayers who have undeclared income from undisclosed offshore bank accounts.	<ul style="list-style-type: none"> • Summary of the Corporate Business Plan 2012–2013 to 2014–2015, Canada Revenue Agency • OECD Guidance Note: Evaluating the effectiveness of compliance risk treatment strategies
The Agency has used the intelligence gained to confirm or update its audit procedures and apply them to auditing Canadian taxpayers who have undeclared income from undisclosed offshore bank accounts.	<ul style="list-style-type: none"> • Summary of the Corporate Business Plan 2012–2013 to 2014–2015, Canada Revenue Agency • OECD Guidance Note: Evaluating the effectiveness of compliance risk treatment strategies

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

The audit covered the period between 1 January 2007 and 31 August 2013. Audit work for this chapter was completed on 31 August 2013.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 9. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Following standard procedures	
<p>9.23 The Canada Revenue Agency should make its timelines clear to both staff and taxpayers in carrying out audits of offshore accounts. (9.8–9.22)</p>	<p>Agreed. The Agency is committed to establishing and communicating timelines to both staff and taxpayers involved in conducting audits related to offshore accounts. The Agency has commenced examining timelines for this work and will continue in this regard in the 2013–14 fiscal year with a view to having interim measures in place by 1 April 2014. With the introduction of the Economic Action Plan 2013 tools, the Agency will re-examine timelines with a view to refining and finalizing the measures during the 2015–16 fiscal year. The Agency will continue to inform taxpayers and their representatives, on a case-by-case basis in the course of auditing, of the consequences of failing to provide information or documents as outlined in Information Circular 71-14R3, The Tax Audit.</p>
<p>9.29 The Canada Revenue Agency should analyze its use of agreements with taxpayers it is auditing, to ensure that their use reflects Agency project and program objectives. (9.24–9.28)</p>	<p>Agreed. The Agency is committed to ensuring that the use of audit agreements effectively reflects and is consistent with offshore project and program objectives. Analysis will be conducted immediately to determine characteristics or elements for consideration in determining whether the use of an agreement for any particular project is appropriate. By 1 April 2014, the Agency will ensure that the guidelines for future agreements are communicated to field auditors prior to the commencement of any specific offshore project.</p>

Recommendation	Response
<p>Using gathered information</p> <p>9.45 The Canada Revenue Agency should ensure that its objectives and audit procedures for offshore accounts reflect lessons learned, and are documented and understood by staff, so that they are ready for the projected increase of work in this area. (9.31–9.44)</p>	<p>Agreed. The Agency is currently developing an action plan to address structural, procedural, and project delivery plans and will ensure that both the objectives and the audit procedures reflect lessons learned to date with respect to offshore accounts. It will be a staged implementation, with the Offshore Compliance Division structure being implemented in October 2013, with objectives, policies, and procedures being developed and implemented on an ongoing basis throughout the 2013–14 fiscal year. As the Electronic Funds Transfer Program will be implemented in January 2015, further policies and procedures in respect of that program will be implemented by April 2015.</p>