



HOUSE OF COMMONS
CANADA

**CHAPTER 8, REVENUE CANADA: COLLECTION OF TAX
DEBTS OF THE MAY 2006 REPORT OF THE AUDITOR
GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, M.P.
Chair**

June 2006



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

SEVENTH REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Chapter 8, Revenue Canada: Collection of Tax Debts of the May 2006 Report of the Auditor General of Canada. The Committee as agreed to table this Report as follows:

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INTRODUCTION

In large measure, Canada's system for assessing and collecting taxes works on the basis of a tacit understanding between the government and taxpayers that the system will operate in a manner that is fair. Thus while most pay their taxes in full and on time, it is expected that most unpaid tax debt will be collected and in a way that recognizes debtors' ability to pay.

The Canada Revenue Agency (CRA, the Agency) is tasked with the difficult and complex job of collecting a variety of taxes for the federal and provincial governments (except Québec). The resulting revenues are used to support the delivery of vital government services; capable management of tax collections is therefore essential.

Although the vast majority pay their taxes on time as the law requires, a number fail to do so. Thus, the Agency also has the responsibility to collect outstanding debt which, for fiscal year 2004-05 stood at \$18 billion, including penalties and interest.¹ This overdue amount represents approximately 5.4 percent of the \$332 billion in revenues collected by the Agency in that fiscal year. However, the size of the tax debt continues to grow at a faster rate than total taxes paid.

Because of the size of the outstanding tax debt, the Committee decided to review the results of a follow-up audit by the Auditor General of the Agency's collection of tax debts. The original audit was conducted in 1994. To assist it in its review of the results of the follow-up audit, the Committee met on 6 June 2006 with Auditor General Sheila Fraser, and Mr. John Rosetti, Assistant Auditor General, and Mr. Jamie Hood, Principal, from her Office. Mr. William Baker, Deputy Commissioner and Chief Operating Officer, represented the Canada Revenue Agency. Mr. Baker was accompanied by Mr. Guy Proulx (Assistant Commissioner), Mr. Fred Vivash (Director General, Tax Operations Directorate, Taxpayer Services and Debt Management Branch), and Mr. Michael Snaauw (Director General, Accounts Receivable Division, Taxpayer Services and Debt Management Branch).

¹ This represents the amount of uncontested debt.

BACKGROUND

The Canada Revenue Agency had a budget of \$215.9 million devoted to collecting tax debts in fiscal year 2005-06 and assigned over 4,000 employees across Canada to this activity. Cash collections from this workforce rose from \$5.3 billion in 1996-97 to \$8.8 billion in 2004-05, representing an increase in cash collected by each collector from \$1.8 million to \$2.3 million.

In 1994, Revenue Canada (the department that preceded the Canada Revenue Agency) spent \$100 million on collection activities. The audit of those activities that was conducted that same year found that the year-end total of unpaid, undisputed income taxes rose from \$4.2 billion in 1988-89 to \$6.6 billion in 1992-93 and remained at that level for 1993-94. From 1988-89 to 1992-93, tax debts increased by 58 percent, while net federal income tax revenue increased by 19 percent.

On the basis of these, as well as other, observations, then Auditor General Denis Desautels commented that “enhancements to certain areas of collection operations could generate millions of dollars of additional revenue and possibly lower the cost of collections.”² Mr. Desautels drew particular attention to the Department’s need to improve its operational and performance information to help its collectors do their jobs in a more productive and timely manner. He made six recommendations that, among other things, called on the Department to implement a risk-scoring system³, develop debtor profiles, assign priority to collecting large debts, monitor and evaluate the performance of collectors, and improve its reporting to Parliament. The Department agreed generally with each of the six recommendations. In 1999, it became the Canada Revenue Agency (CRA).

² Office of the Auditor General of Canada, 1994 *Report of the Auditor General of Canada to the House of Commons*, Chapter 29, paragraph 29.43.

³ Risk-scoring is an approach commonly used in the private sector to ensure that collectors focus their efforts where risk and potential payback are the highest. Accounts are assessed for factors that signal risk of non-collectability. These factors are then combined to produce an overall risk score. This score can also be used to determine which collection strategy is likely to be the most effective.

The follow-up audit, which covered the period up to 20 December 2005, and examined whether the Agency uses “efficient and timely processes to collect tax debts”⁴ and assessed the progress made in addressing concerns raised by the 1994 audit. Based on the audit results, the current Auditor General, Ms. Sheila Fraser, concluded that “[o]verall, the Agency has not made satisfactory progress” in addressing the recommendations that were made in 1994.⁵

The Auditor General’s main concerns arising from the follow-up audit were:

- The continued rate of growth of the tax debt, which is rising faster than total taxes paid, and the age of the accounts;
- Weaknesses in the Agency’s approach to assessing tax debts for risk;
- Lack of information needed by Agency managers to understand the composition of the tax debt and to develop collection strategies and allocate resources; and
- Lack of information that would tell managers whether the procedures used to collect tax debts are timely and efficient.

The Auditor General made four recommendations intended to overcome the shortcomings in each of these areas; the Agency has agreed to each one of them.

OBSERVATIONS AND RECOMMENDATIONS

The Agency’s Response to the Audit and Recommendations

The CRA has taken a positive approach to the audit findings and the Auditor General’s recommendations. The Agency’s Deputy Commissioner and Chief Operating Officer made this clear in his opening remarks to the Committee, stating that the CRA

Finds the observations made by the Auditor General to be pertinent and highly consistent with our own understanding of where the improvements are needed to our program.⁶

Although the Committee is prepared to recognize the Agency’s stated desire to resolve problems identified by the audit, it cannot accept such pronouncements at face value.

⁴ Office of the Auditor General of Canada, *A Status Report of the Auditor General of Canada to the House of Commons*, May 2006, Chapter 8, paragraph 8.14.

⁵ Office of the Auditor General of Canada, *A Status Report of the Auditor General of Canada to the House of Commons*, May 2006, Chapter 8, Main Points, p. 237.

More than ten years ago, when confronted with audit results that were in most respects similar to those just released, the Agency's response was much the same. It recognized that shortcomings in its approach to collections were in need of timely correction and signalled its agreement with the Auditor General's recommendations. Twelve years after the initial audit, it is evident that actions taken by the Agency were incomplete – or absent altogether. In the interim, it is clear that the half-hearted effort has resulted in the potential loss of hundreds of millions of dollars to the Crown.

Canadian taxpayers, the vast majority of whom pay their taxes on time, are confronted with the possibility that others with the means to pay have not because the Agency has not acted with sufficient diligence to plug the gaps in its collections activities. In a system in which trust in the principle of fairness is essential, such negligence has serious implications. And at a time when levels of taxation and government surpluses are the subject of intense scrutiny and debate, large amounts of uncollected revenue reduce the flexibility to make adjustments to tax rates. For these and many other reasons, the Agency must act swiftly to make necessary improvements to its collections activities.

At paragraph 8.71 of her Report, the Auditor General has provided a score card showing that four of the nine 1994 recommendations have been addressed satisfactorily and five have not. Since these recommendations are as relevant today as they were twelve years ago and many require action, the Committee recommends:

RECOMMENDATION 1

That the Canada Revenue Agency develop a detailed action plan that includes timelines and performance indicators for the implementation of the outstanding recommendations contained in chapter 29 of the Auditor General's 1994 Report and submit that action plan to the Standing Committee on Public Accounts no later than 31 December 2006.

⁶ Evidence, 39th Parliament, Meeting No. 7, 11:10.

Assessing and Managing Risk

An area of particular concern for the Committee involves the Agency's ability to use risk management in connection with its collection of outstanding tax debt. According to the Auditor General, the Agency does not have a risk management framework, although it does use certain elements of risk assessment.⁷ Furthermore, it has not reviewed its risk-scoring system regularly and its documentation of the system's risk-scoring module has been so poor that the Auditor General was "unable to determine how the risk scores are calculated or whether they were appropriate."⁸ This is troubling in light of her earlier observation that:

Risk scoring is . . . used to determine collection procedures. For example, high-risk accounts could be subject to aggressive action, whereas a more moderate approach would be used for accounts that are likely to be paid.⁹

This raises several possibilities. In the absence of a risk management framework and an accurate risk-scoring mechanism tied to collection activities, the Agency may not be taking timely action to collect on the riskiest debts. Furthermore, it may be using inappropriate collection measures, resorting to aggressive action when dealing with taxpayers who fully intend to pay their outstanding taxes. But the Agency does not know whether or not this is the case for the reasons outlined in the Auditor General's Report. And as she notes in paragraph 8.47 of the Report, these risk management deficiencies were pointed out by her Office in 1994.

Because failures to address risk management deficiencies may have led to inappropriate treatment of taxpayers with outstanding tax debts or have resulted in missed opportunities to collect debt in a timely way, the Committee recommends:

⁷ Office of the Auditor General of Canada, *A Status Report of the Auditor General of Canada to the House of Commons*, May 2006, Chapter 8, paragraph 8.44.

⁸ Office of the Auditor General of Canada, *A Status Report of the Auditor General of Canada to the House of Commons*, May 2006, Chapter 8, paragraph 8.46.

⁹ Office of the Auditor General of Canada, *A Status Report of the Auditor General of Canada to the House of Commons*, May 2006, Chapter 8, paragraph 8.43.

RECOMMENDATION 2

That as the Canada Revenue Agency finally moves to address outstanding recommendations from the Auditor General’s 1994 audit, it pay particular attention to the need to develop a risk management framework, an accurate, effective risk-scoring system, and debtor profiles with regard to its collections activities. This framework should deal specifically with the age of tax debts and a timeline for its implementation should be presented to the Committee by 31 December 2006.

The Frequency of External Audit

In 1994, the Auditor General reported that “[i]mprovements to Revenue Canada’s ability to collect tax debts could bring about millions of dollars in additional revenue yearly.”¹⁰ In 2006, the Auditor General has concluded that “[a]ny improvements in [the Agency’s] ability to collect tax debts efficiently and within a reasonable length of time could add millions of dollars in revenues to the Crown every year.”¹¹

In light of these comments, it is more than likely that the Agency’s inability to fully implement the Auditor General’s recommendations has resulted in a significant loss of revenue to the Crown. While the responsibility for this failure to collect large amounts of tax debt rests squarely with the Agency, the Committee believes that the amounts of revenue at risk combined with the Agency’s unimpressive record in responding to recommendations signals the need for more frequent scrutiny of its actions in this area. In light of the Auditor General’s acknowledgement of the need to audit this program more frequently, the Committee accordingly suggests:

RECOMMENDATION 3

That the Office of the Auditor General of Canada establish a timetable for external performance audits of the Taxpayer Services and Debt Management Branch of the Canada Revenue Agency that results in audits at five-year intervals.

¹⁰ Office of the Auditor General of Canada, 1994 Report, Chapter 29, paragraph 29.107.

¹¹ Office of the Auditor General of Canada, 2006 *Status Report of the Auditor General of Canada*, Chapter 8, Main Points, p. 237.

The Need for Contingency Plans

In 1994, Auditor General Desautels reported that Revenue Canada “noted that the recent recession and slow economic recovery have affected the ability of many taxpayers to settle their accounts in a timely manner.”¹² In 2006, a robust economy appears to have dispelled concerns that an economic recession might adversely affect the size of the tax debt and complicate efforts to collect it. This attitude was evident in the Agency’s response to Committee questioning. Mr. Baker testified that the Agency’s plan “is designed to improve the overall performance of the collections program regardless of economic plight.”¹³ The Committee believes that this approach is inadequate and therefore recommends:

RECOMMENDATION 4

That the Canada Revenue Agency develop a plan to ensure that its collections activities and strategies are successful throughout the entire economic cycle. The Agency should provide the Standing Committee on Public Accounts with a copy of this plan no later than 31 December 2006.

A Strategic Vision for the Future

In her Report, the Auditor General noted that the Agency has recently developed a strategic vision for its Revenues Collection Branch that sets out “ambitious” goals that are to be achieved by 2010. The plan incorporates best practices in other jurisdictions and the private sector and is dependent in many respects on the successful implementation of a new technology platform.

The Auditor General testified that the strategic vision “would address many of the issues that have been raised” in her audit.¹⁴ Ms. Fraser added, however, that her Office would need to see a concrete action plan for the implementation of the strategic vision which would provide assurance that the Agency has made a priority that will be addressed over

¹² Office of the Auditor General, 1994 Report, Chapter 29, paragraph 29.20.

¹³ Evidence, 39th Parliament, Meeting No. 7, 12:40.

¹⁴ Evidence, 39th Parliament, Meeting No. 7, 11:45.

time. Mr. Baker responded that the Agency had already begun work on such a plan and was willing to provide the Committee with a copy.

In consideration of the Department's, and then the Agency's anaemic response to the 1994 audit, the Committee adopted a motion in order to emphasize its determination that the Agency take meaningful action to deliver on its strategic vision. The motion, which was adopted unanimously by the Committee, reads as follows:

That the Canada Revenue Agency report to the Standing Committee on Public Accounts by September 30, 2006 on the status of the Agency's 2010 vision plan and that the Committee requests the Agency to provide a detailed action plan including performance indicators and a timetable for completing its 2010 vision and, provide the Committee with regular progress reports.

In addition, the Committee recommends:

RECOMMENDATION 5

That the Canada Revenue Agency report on progress on the implementation of this plan in its annual performance report, beginning with the year ending March 31, 2007.

Mr. Baker indicated his agreement to abide by the motion and the Committee intends to monitor the Agency's response to ensure full compliance. The Committee notes, as well, that the Auditor General made a commitment to inform the Committee when her Office intends to do a follow-up audit based on the timelines contained in the Agency's plan.

Conclusion

Having regard to the principles of fairness and trust, the overwhelming majority of taxpayers – individuals and businesses alike – pay their taxes on time and in full. It is a disservice to those who honour their obligations to not make every reasonable effort to collect amounts still owing. While the Canada Revenue Agency for the most part performs credibly in its efforts to collect outstanding tax debt, it has not taken all of the measures needed to ensure that its collection efforts are timely, reasonable, and based on appropriate and complete management information. It is inexcusable that it has known

where weaknesses in its procedures lie and how to fix them for twelve years yet has not been able to achieve an acceptable level of success.

The Committee fully intends to closely monitor the Agency's response to the Auditor General's findings and recommendations to ensure that no more time than is absolutely necessary expires before concrete action is taken to modernize and improve the current collections system.

**APPENDIX A
LIST OF WITNESSES**

<i>Organizations and Individuals</i>	<i>Date</i>	<i>Meeting</i>
Canada Revenue Agency William Baker Deputy Commissioner and Chief Operating Officer	2006/06/06	7
Canada Revenue Agency Guy Proulx Assistant Commissioner Taxpayer Services and Debt Management Branch	2006/06/06	7
Canada Revenue Agency Michael Snaauw Director, Accounts Receivable Division Taxpayer Services and Debt Management Branch	2006/06/06	7
Canada Revenue Agency Fred Vivash Director General, Tax Operations Directorate Taxpayer Services and Debt Management Branch	2006/06/06	7
Office of the Auditor General of Canada Sheila Fraser Auditor General	2006/06/06	7
Office of the Auditor General of Canada Jamie Hood Principal	2006/06/06	7
Office of the Auditor General of Canada John Rossetti Assistant Auditor General	2006/06/06	7

REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meetings No. 7 and 11 including this report](#) is tabled).

Respectfully submitted,

Hon. Shawn Murphy, M.P.
Chair

MINUTES OF PROCEEDINGS

Meeting No. 11

Tuesday, June 20, 2006

The Standing Committee on Public Accounts met *in camera* at 11:07 a.m. this day, in Room 269, West Block, the Chair, Shawn Murphy, presiding.

Members of the Committee present: David Christopherson, Brian Fitzpatrick, Mike Lake, Hon. Shawn Murphy, Richard Nadeau, Yasmin Ratansi, David Sweet, John Williams and Borys Wrzesnewskyj.

Acting Members present: Sukh Dhaliwal for Marcel Proulx, Marc Lemay for Benoît Sauvageau and Jeff Watson for Pierre Poilievre.

In attendance: Library of Parliament: Alex Smith, Analyst.

The Committee proceeded to the consideration of matters related to Committee business.

It was agreed, — That the draft report on Chapter 5, Management of Programs for First Nations of the May 2006 Report of the Auditor General of Canada be adopted as the Sixth report of the Standing Committee on Public Accounts.

That the Clerk and analysts be authorized to make such editorial and typographical changes as necessary without changing the substance of the Report.

That the Chair be authorized to table the Report in the House.

That, pursuant to Standing Order 109, the Committee request that the Government provide a comprehensive response to this Report.

It was agreed, — That a press release be prepared and sent after the tabling of the Report in the House.

It was agreed, — That prior to the tabling of the final report on Chapter 8, Revenue Canada: Collection of Tax Debts of the May 2006 report of the Auditor General of Canada, the Clerk be instructed to circulate to all members a copy of the final draft version for review and approval over the course of a four hour period.

It was agreed, — That, after being circulated, the draft report (as amended) on Chapter 8, Revenue Canada: Collection of Tax Debts of the May 2006 Report of the Auditor General of Canada be adopted as the Seventh Report of the Standing Committee on Public Accounts.

That the Clerk and analysts be authorized to make such editorial and typographical

changes as necessary without changing the substance of the Report.

That the Chair be authorized to table the Report in the House.

That, pursuant to Standing Order 109, the Committee request that the Government provide a comprehensive response to this Report

That a press release be prepared and sent after the tabling of the Report in the House.

It was agreed, — That the Chair write to the Deputy Minister of Public Works, re-instating that the documents demanded by the Committee be sent forthwith to the Clerk and outlining that the Department has caused the delay of the issue of the Committee's Report.

It was agreed, — That the Committee be authorized to purchase for Committee members, copies of the publication of the CCAF on Parliamentary Oversight - Committees and relationships- A Guide to Strengthening Public Accounts Committee at a cost of \$50.00 each.

It was agreed, — That the Subcommittee on Agenda and Procedure met with the CCAF to discuss this publication.

At 12:26 p.m., the Committee adjourned to the call of the Chair.

Danielle Bélisle
Clerk of the Committee