



RISK WATCHER

2016-2017 Q2, Issue 2

Disclaimer: Risk Watcher is intended to provide information that may influence the Canada Revenue Agency (CRA)'s enterprise-level risks. Information has been presented directly from the source without validation by the Audit, Evaluation, and Risk Branch (AERB). The inclusion of the articles below does not imply the endorsement of the CRA or the AERB. Additionally, given that some of the content may be of a forward-looking nature, the information included herein may be subject to change. The Risk Watcher categories align with the CRA's strategic priorities and the Corporate Risk Profile's themes. Risk Watcher is intended for CRA internal use only. Note: Internet access is required to view certain links contained in this document.

Service

CRA's new online services have contributed to the increase in the number of returns filed electronically

- Minister of National Revenue Diane LeBouthillier announced that more Canadians than ever before are filing their returns electronically, with 84% now filing online.
- An increase of over 736,000 electronically filed returns compared to last year.
- Over 5 million tax returns were filed using Auto-fill my return, one of the new online tools introduced this year. **Source:** Government of Canada, [The CRA's new online services have contributed to the increase in the number of returns filed electronically](#) (07.14)

Link to enterprise risks:

- Service channels
- Communications with taxpayers, businesses, benefit recipients, and tax intermediaries

The vulnerability in Delta's computer system

- A power outage at Delta Air Lines Inc. grounded thousands of passengers world-wide during the height of the summer travel season, wreaking havoc on the carrier's reservations system and drawing attention to antiquated technology that has plagued many airlines.
- The chaos highlights how vulnerable big firms are to their IT systems crashing. Delta admitted that a malfunctioning power-control system at its data centre was the cause of the outage.



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- The airline indicates that it spent hundreds of millions of dollars on technology upgrades and backup systems in the last three years to avoid such an outcome.
- A lot of airlines have been struggling with legacy systems that they are not able to shut down - decommission to move through their life cycle - because they have a 24/7 operation.
- Airlines are not the only firms plagued by such problems. Banks, too, were among the first companies to invest in IT and they too grapple with systems cobbled together over decades. When RBS, a British bank, tried to upgrade its systems in 2012, a malfunction left many thousands of customers without access to their accounts. **Source:** The Economist, [All systems stop](#) ; Bloomberg [Delta System Failure Marks Wake-Up Call for Airline Industry](#) (08.09)

Link to enterprise risks:

- Service channels

Rwanda to introduce new eID card

- At the ID4Africa Forum in May, Rwanda announced that it will roll-out an integrated eID card in July 2016.
- eID is a government-issued document for online and offline identification and it has the format of a regular bank card, with printed identity information on the surface, such as personal details and a photograph, as well as an embedded microchip.
- An eID is designed to be a trusted authentication mechanism for citizens and businesses to identify themselves in order to electronically access services from across government.
- The eID card also provides users with the option to sign electronic documents with a digital signature on both government and private transactions. **Source:** Biometric update, [Rwanda to introduce new eID card](#) (05.25)

Link to enterprise risks:

- Service channels
- Communications with taxpayers, businesses, benefit recipients, and tax intermediaries
- Protection of taxpayer information



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Integrity and security

New IBM security app uses analytics to target internal threats

- A new app from IBM will help businesses determine if the credentials or systems of their own employees have been compromised.
- Called IBM QRadar User Behavior Analytics, the new feature is available as a free app via the IBM Security App Exchange.
- The app analyzes the usage patterns of insiders, including employees, contractors and partners, to determine if their credentials or systems have been compromised by cybercriminals.
- The app provides enterprises with a single platform to analyze and manage security events and data which saves security analysts from having to reload and compare data from multiple platforms to identify and investigate user behavior side-by-side with other indicators of compromise. **Source:** CIO today, [New IBM Security App Uses Analytics To Target Internal Threats](#) (07.29)

Link to enterprise risks:

- Cybersecurity

Compliance

Lifestyle audits in Vancouver

- The CRA has recently been actively monitoring and auditing real estate transactions in British Columbia.
- In the year ending March 31, 2016, the CRA audited about 1,864 Ontario real estate files and recovered nearly \$18 million in income tax and \$32 million of GST/HST. In B.C., audits of 339 files resulted in \$4.2 million in recovered income tax and \$10 million in recovered GST/HST.
- The CRA identified a number of areas of compliance risk in the real estate sector, including:
 - Questionable source of funds;
 - Property Flipping;



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- Unreported GST/HST on the sale of a new or substantially renovated home; and
- Unreported capital gains on the sale of property. **Source:** Financial Post, [How the CRA is cracking down on non-compliance in Canada's hottest housing markets](#) (07.22)

Link to enterprise risks:

- Underground economy

Microsoft's tax deal with HMRC

- Microsoft Ireland's accounts show that the company made £2.3bn in revenues from sale of hardware and software in the year to June 2015, but it paid only £16,9 million in corporate tax.
- This was the result of a deal with the Government called an advanced pricing agreement (APA) that allowed Microsoft saving £100 million in tax.
- The APA is a contract organised ahead of time, and often lasting a number of years, by a taxpayer and the authority regarding a pricing method for its transactions.
- HMRC has reassured that APA's are not a way for firms to avoid paying what is owed.
- Microsoft has sent over £8billion of revenue generated from British customers to Ireland since 2011, where corporation tax is just 12.5 per cent, compared to 20 per cent in the UK. **Source:** Daily Mail, [Multi-billion-dollar computer giant Microsoft agrees secret deal with HMRC that 'allows the company to avoid £100m of UK tax'](#) (06.19)

Link to enterprise risks:

- Transfer pricing

Belgium transfer pricing documentation requirement

- Belgium has introduced transfer pricing documentation requirements through a Program Law effective July 1st, 2016.
- Belgian group entities (including Belgian permanent establishments) of multinational groups must now file a Master File with the Belgian tax administration and within 12 months after the reporting period.
- The Master File must contain an overview of the multinational group, including a description of its business activities, its



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intangible fixed assets, intra-group transactions and the consolidated financial and tax position, its general transfer pricing policy and worldwide allocation of income and economic activities.

- Belgian companies not exceeding one of the following criteria on a stand-alone basis are exempt from the obligation to file a Master File:
 - operating and financial income, non-recurrent income excluded, of EUR 50 million;
 - a balance sheet total of EUR 1 billion;
 - an annual average personnel number of 100 full time equivalents. **Source:** Baker McKenzie, [Belgium transfer pricing documentation](#) (07.06)

Link to enterprise risks:

- Transfer pricing

Innovation

FinTech¹ accelerator

- In a speech prepared for the Lord Mayor's Banquet for Bankers and Merchants of the City of London, England at the Mansion House, Mark Carney, governor of the Bank of England (BoE), revealed that the BoE is launching a FinTech Accelerator to work in partnership with FinTech firms on challenges that the central bank uniquely faces.
- In his speech, the accelerator will work with new technology firms to help them harness FinTech innovations for central banking. In return, it will offer firms the chance to demonstrate their solutions for real issues facing policymakers.
- The announcement of the BoE's Fintech accelerator can be seen as one more step toward mainstreaming distributed ledger technology and planning for its introduction in the overall economy. **Source:** Bitcoin Magazine, [Bank of England Launches Fintech Accelerator, Partners With PwC on Distributed Ledger Project](#) (06.21)

¹ FinTech is an abbreviation for Financial Technology. Fintech is an economic industry composed of companies that use technology to make financial services more efficient and challenges traditional business models. Fintech is usually applied to the segment of the technology startup scene that is disrupting sectors such as mobile payments, money transfers, loans, fundraising and even asset management.



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Link to enterprise risks:

- Digital commerce

People

Canadian organizations struggle to engage employees

- A study by the Conference Board of Canada reports that only 27% of employees in Canada are highly engaged.
- The most engaged employees tend to be those in management, individuals who have been with an organization for less than one year, employees working in small organizations or the not-for-profit sector.
- Employees with a longer tenure and those who work for mid-sized companies, or in technical/skilled trades, or the federal government have among the lowest levels of engagement.
- Confidence in senior leadership, relationship with manager, interesting and challenging work, professional and personal growth, acknowledgement and recognition, relationships with co-workers and autonomy are amongst the seven workplace factors that influences employee engagement. **Source:** Conference Board of Canada, [Canadian Organizations Struggle to Engage Employees](#) (07.13)

Link to enterprise risks:

- Employee health, well-being, and safety
- Operational pace

Micro-missions now at the CRA

- As per the Agency News on InfoZone dated July 25, 2016, the CRA will be participating in the interdepartmental Micro Missions Pilot Project which is a platform allowing public servants to post or accept small tasks and projects outside the work of their usual teams.
- They are short-term, voluntary and task-based opportunities for employees interested in showcasing their skills and building networks outside of their daily work activities, and for managers who need timely support for a project that requires specific knowledge or skill set.



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- Micro Missions are informal and the employee remains in his or her home organization, work unit and substantive position. **Source:** InfoZone, [Micro-missions now at the CRA](#); Government of Canada: GCconnex, [Micro-Missions](#) (07.25)

Link to enterprise risks:

- Operational pace
- Workforce renewal

Relationship management

Reinventing the external stakeholders function

- According to a McKinsey Global Survey on external affairs, engaging with external stakeholders is more important than ever to company leaders.
 - External affairs rank as a top or top three priority for more than half of CEOs.
- Yet while most executives believe outside stakeholders will be increasingly involved in their industries in coming years, few say their companies have taken an active approach to engaging with stakeholders or that they have found success in their external-affairs efforts.
- The companies that, according to respondents, are most successful at external affairs not only have better overall capabilities than their peers but they also are particularly skilled at organizing their external-affairs functions.
- When asked about the most influential stakeholders, executives expect government entities and regulators as well as customers will have the greatest effect on their companies' value.
 - About two-thirds of all executives predict that government and regulator involvement will increase in the coming years. **Source:** McKinsey, [How to reinvent the external-affairs function](#) (07.25)

Link to enterprise risks:

- Stakeholder collaboration



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Emerging

Reimagining the employee experience in government

- Deloitte Press University released a study that examines ways that government agencies could adapt key principles of experience design to treat employees the same way as customers, and explores how the customer “lens” approach can transform the employee journey for public servants. **Source:** Deloitte University Press, [Employees as customers: Reimagining the employee experience in government](#) (05.31)

I've read the Risk Watcher report -- now what?

- Consider whether information in these reports may have a direct and/or indirect impact on your work area. For example, are there circumstances described in the articles that may:
 - Increase or decrease the risk exposure that your work area might be facing?
 - Help you address a particular risk your work area is facing?
 - Result in a new risk being identified in your work area?
- The Risk Watcher report may also be used to inform **planning or business activities, decision-making, and environmental scanning efforts.**

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