



COVID-19 PANDEMIC

REPORT 7

Canada Emergency Wage Subsidy

Independent Auditor's Report

2021

Reports of the Auditor General
of Canada to the
Parliament of Canada



Office of the
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of Canada

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Introduction

Background

Responding to a pandemic

7.1 As part of the response to the **coronavirus disease (COVID-19)** pandemic, the federal government announced the Canada Emergency Wage Subsidy. The purpose of this subsidy is to help employers retain their employees during the pandemic and to ensure that workers are able to count on a source of income despite some sectors of the economy being shut down. The subsidy also encourages employers to rehire workers who were laid off as a result of the pandemic and helps position employers to resume normal operations more easily when businesses can fully resume.

7.2 According to the Department of Finance Canada's estimates in the Fall Economic Statement 2020, the Canada Emergency Wage Subsidy program is expected to cost approximately \$97.6 billion by the end of the 2021–22 fiscal year, making it one of the largest initiatives the government has ever undertaken. The subsidy will be available until June 2021. Because of the importance of this program and the significant cost associated with it, it needs to be well managed and its parameters need to be well designed.

Roles and responsibilities

7.3 The Department of Finance Canada is responsible for providing analysis and advice to the Minister of Finance and Government of Canada on the Canada Emergency Wage Subsidy program.

7.4 The Canada Revenue Agency is responsible for the program's administration, which includes the service delivery, compliance, and collection activities.

Focus of the audit

7.5 This audit focused on whether the Department of Finance Canada provided analysis on the Canada Emergency Wage Subsidy program and whether the Canada Revenue Agency limited abuse by establishing appropriate controls in its administration of the program.

Coronavirus disease (COVID-19)—The disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).

7.6 This audit is important because the Canada Emergency Wage Subsidy is one of the largest initiatives the government has ever undertaken and is one of the key programs for supporting employers and economic recovery after the pandemic.

7.7 More details about the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this report (see pages 18–19).

Findings, Recommendations, and Responses

Overall message

7.8 Overall, we found that despite facing a historic pandemic, the Department of Finance Canada and the Canada Revenue Agency worked within short time frames to provide decision makers with information to assist them in developing the Canada Emergency Wage Subsidy and to implement the subsidy. Although the Department of Finance Canada performed a partial analysis of the initial design of the subsidy program, it later provided a sound and complete analysis to inform adjustments to the subsidy. However, we are unable to provide Parliament with details of these analyses because they were in secret and Cabinet documents and must be kept in strict confidence.

7.9 In order to pay the subsidy to employers quickly, the Canada Revenue Agency made decisions about information that would be collected before payments were made and pre-payment controls that would be implemented to ensure that payments were appropriate. For example, the agency decided not to ask employers for their employees' social insurance numbers. Also, the agency did not have all up-to-date earnings and tax data or sub-annual data—that is, data for multiple points in time throughout a year. We also found that 28% of the subsidy applicants did not file a return for the goods and services tax/harmonized sales tax (GST/HST) for the 2019 calendar year. Therefore, the agency did not have all the information it needed to validate the reasonableness of the applications before issuing payments. Starting in spring 2021, the agency will have to rely on costly comprehensive audits to recover payments made to ineligible recipients.

Developing and implementing the emergency wage subsidy

Context

7.10 On 18 March 2020, because of the COVID-19 pandemic, the government announced the 10% Temporary Wage Subsidy for Employers,

which paid employers 10% of their employees' wages by reducing the amount of remittances owed to the Canada Revenue Agency.

7.11 On March 27, as the scale of economic difficulties broadened, the government also announced the Canada Emergency Wage Subsidy to complement its 10% Temporary Wage Subsidy for Employers. The new program was designed to subsidize up to 75% of qualifying wages (up to \$847 per week and per employee) for all employers facing a minimum 15% decline in revenue in March or a minimum 30% decline in April, May, or June.

7.12 On 11 April 2020, Parliament passed the *COVID-19 Emergency Response Act, No. 2*, to amend the *Income Tax Act* and to establish the legal foundation for the Canada Emergency Wage Subsidy. This subsidy program was initially set to run from 15 March to 6 June 2020.

7.13 On May 15, the government announced some changes to the Canada Emergency Wage Subsidy, which mainly included extending the subsidy program for 12 additional weeks (from June 7 to August 29) and broadening the types of employers that could qualify. At the same time, the government announced that it would consult with key business and labour representatives over the following month to bring potential adjustments to the program that would promote jobs and economic growth.

7.14 On July 17, the government announced further changes to the program, including another extension from 30 August to 19 December 2020. In its new form, employers no longer needed to have experienced a minimum percentage of revenue drop to qualify for a base subsidy. Furthermore, an additional top-up subsidy was introduced for those hit the hardest by the pandemic.

7.15 Each employer received the wage subsidy through the employer's business account at the Canada Revenue Agency as a refund of a deemed overpayment of income tax. This was the statutory means by which the subsidy was paid to employers, even in situations where the *Income Tax Act* could have otherwise prevented the Minister of National Revenue from refunding amounts to a taxpayer. The subsidy amount that employers received would generally be counted as income for tax purposes.

The Department of Finance Canada provided sound and complete analysis to inform adjustments to the Canada Emergency Wage Subsidy program

What we found

7.16 In unusual circumstances, the Government of Canada worked within extremely short time frames to develop an emergency wage subsidy to address the economic effects of the coronavirus disease

(COVID-19) pandemic. We found that although the Department of Finance Canada performed a partial analysis of the initial design of the Canada Emergency Wage Subsidy program, it later provided a sound and complete analysis to inform adjustments to the program. The department's proposed changes to the program reflected what it learned during public consultations.

7.17 However, we are unable to provide Parliament with details regarding the analyses provided to us during the course of this audit because they were in secret and Cabinet documents and must be kept in strict confidence.

7.18 The analysis supporting this finding discusses the following topics:

- High-level analysis of the initial emergency wage subsidy
- Program modifications made following consultations

Why this finding matters

7.19 This finding matters because the importance of this subsidy program and its significant cost underscore the need for it to be well designed and amended over time as circumstances change.

Context

7.20 In its initial form, the Canada Emergency Wage Subsidy program was intended to provide employers that suffered significant revenue drops with a subsidy of up to \$847 per week per employee to keep employees in Canada on the payroll (to avoid layoffs) and to bring those who were laid off back onto the payroll. To qualify, an employer must have suffered a revenue drop of 15% or more in March 2020 and of 30% or more in April, May, or June 2020, compared with prior reference periods. Under the program, the Government of Canada was providing the employer with a subsidy generally equal to the greater of the 2 following criteria:

- 75% of the amount of eligible remuneration paid to the employee, to a maximum benefit of \$847 per week
- the lesser of the eligible remuneration paid for the week or 75% of the pre-crisis weekly remuneration, to a maximum of \$847

7.21 After changes to the program were announced on 17 July 2020, subsidy applicants no longer needed to have experienced a minimum percentage of revenue drop to qualify. The program also provided an additional top-up subsidy for those hit the hardest by the pandemic. As the result of the changes, the subsidy consisted of 2 parts:

- A base subsidy was available to any employer that had experienced a decline in revenue. Employers that had experienced a 50% or greater decrease in monthly revenue were entitled to a flat percentage subsidy of an employee's weekly wage, whereas

employers that had experienced a decrease in revenue of less than 50% were entitled to a percentage according to a gradual scale.

- A top-up subsidy of up to an additional 25% was available to employers that had experienced a 50% or greater decrease in revenue over the last 3 months. The top-up subsidy was based on the magnitude of the 3-month revenue drop.

7.22 On 23 September 2020, the federal government announced in the Speech from the Throne that it was extending the Canada Emergency Wage Subsidy until summer 2021. The announcement presented this extension as a means of creating 1 million jobs and returning employment to pre-pandemic levels.

7.23 On October 14, another round of changes was announced to the subsidy program. The main changes were that the revenue decline test for the base subsidy and the top-up subsidy would be harmonized and that the maximum subsidy rate would remain at 65% (up to \$734 per week per employee) from September 27 to December 19.

7.24 On November 30, in its Fall Economic Statement 2020, the government announced that the maximum subsidy would be increased to 75% for the 4-week claim periods falling between 20 December 2020 and 13 March 2021.

Recommendation

7.25 Our recommendation in this area of examination appears at paragraph 7.35.

Analysis to support this finding

High-level analysis of the initial emergency wage subsidy

7.26 The unprecedented nature of events that unfolded after the World Health Organization declared the global pandemic in mid-March 2020 meant that much of the initial development work for the wage subsidy program was done quickly. This meant developing policy, conducting economic analysis, drafting legislation, preparing communications products, and ultimately putting the program into action, all in a matter of weeks. The turnaround time for key steps was often a few hours or overnight. This timing stands in stark contrast to the usual policy and program development process, in which the analysis, approval, communication, and implementation steps can take place over many months.

7.27 We found that the Department of Finance Canada performed a partial analysis of the initial Canada Emergency Wage Subsidy program because the department had only a few days and did not have the full information required to provide a formal analysis. Nonetheless, officials

offered general considerations for some parameters of the program. However, because these considerations were part of Cabinet documents, they had to remain in confidence for all purposes.

7.28 The speed with which the program was developed and implemented by the Government of Canada could explain some concerns that the Canada Revenue Agency had about its design. For example, the agency may disburse the subsidy to an applicant even if the applicant owes the government tax arrears. According to the agency's previous research, employers with tax arrears also have a high likelihood of insolvency, which means that giving the subsidy to these employers could present a risk of inefficient use of public funds:

- In 2011, the agency stated that penalties for failing to remit income tax were an indication of higher risk of insolvency. Up to 9 October 2020, approximately \$295 million of the total subsidy disbursements were made to employers with a high risk of insolvency.
- According to business intelligence research performed by the agency in July 2020, employers that had at least one penalty for failure to remit were 3.7 times more likely to become insolvent.
- As of 9 October 2020, the total arrears balance for all accounts of Canada Emergency Wage Subsidy recipients was over \$3.8 billion; debt associated with T2 corporation income tax returns and GST/HST returns accounted for the vast majority of the total tax debt, at \$1.9 billion and \$1.6 billion, respectively.

7.29 We noted that the subsidy was paid to applicants despite their history of penalties for failure to remit and other advance indicators of potential insolvency. Indeed, the agency held no legislative authority to deny access to the subsidy on the basis of an employer's history of non-compliance with tax obligations. It is our view that this situation presented a risk that the subsidy program would not achieve its goal of maintaining the employee-employer relationships needed to support economic recovery because it may have subsidized applicants that were operating non-viable organizations.

Program modifications made following consultations

7.30 We found that the Department of Finance Canada informed the changes to the Canada Emergency Wage Subsidy program introduced on July 17 and that they were in line with the feedback gathered by the department during public consultations. According to the department, these program changes were meant to maximize employment in Canada and encourage economic growth.

7.31 Before the changes announced on July 17, the department had analyzed the program's design and noted that it contained unintended disincentives for employers to grow and rehire employees. Without changes to the threshold criteria of a 30% revenue drop to qualify for

the subsidy, some employers could have decided to slow their revenue growth and hiring in order to maintain access to the Canada Emergency Wage Subsidy and enjoy higher profitability. Based on the results of the department's public consultations, one way to correct this problem was to gradually reduce the subsidy rate as employers' revenues increased.

7.32 According to the department and the consultations, gradually reducing the wage subsidy in line with the employer's revenue could support revenue growth for all types of employers as long as

- the rate of the subsidy reduction was smaller than the rate of increase in revenue
- the phase-out of the program was predictable and known in advance

7.33 Stakeholders, such as business representatives and professional associations, also expressed concerns to the Department of Finance Canada that the Canada Emergency Response Benefit could be an obstacle for employers that wanted to rehire unspecialized workers and students. Many expressed concern that workers would accept work only up to 15 hours per week so as to not exceed the monthly income cap for the benefit. The benefit-subsidy interaction was identified as particularly challenging to seasonal businesses that operate primarily in the summer months and rely heavily on unspecialized labour.

7.34 It is our view that, although the Department of Finance Canada performed a partial analysis of the initial design of the subsidy, it subsequently performed a sound and complete analysis to inform the changes to the subsidy program. We are also of the view that, given the announced extension of the program, parliamentarians could benefit from knowing the economic effects of this program.

7.35 **Recommendation.** The Department of Finance Canada should complete and publish an economic evaluation of its wage subsidy programs.

The department's response. *Agreed. The Department of Finance Canada will prepare an evaluation and publish its findings in an upcoming edition of the Report on Federal Tax Expenditures.*

Rapid subsidy implementation and gaps in business data forced the Canada Revenue Agency to delay the use of more effective controls

What we found

7.36 We found that despite extraordinarily challenging circumstances, the Canada Revenue Agency was able to effectively build an information technology solution that allowed for the quick delivery of the Canada Emergency Wage Subsidy. The agency did this at the same time as it

delivered other income support programs that the federal government introduced to respond to the pandemic.

7.37 We found that in order to meet government objectives with regard to quick subsidy payments and because of a lack of data, the agency was able to conduct only limited pre-payment validations for the Canada Emergency Wage Subsidy. The agency did not have all up-to-date earnings and tax data or sub-annual data—that is, for multiple points in time throughout a year. For example, 28% of applicants did not file a GST/HST return for the 2019 calendar year.

7.38 Another factor limiting the ability to perform pre-payment validations was that the agency did not ask subsidy applicants for their employees' social insurance numbers. Obtaining social insurance numbers could have helped to automatically match the data with other sources in order to validate subsidy applications and quickly prevent overpayments from other programs created in response to the COVID-19 pandemic, reducing the need to recover the overpayments in the future. Instead, the agency will have to rely on costly comprehensive audits, which will start in 2021.

7.39 The analysis supporting this finding discusses the following topics:

- Wage subsidy implemented rapidly
- Data gaps for pre-payment validations
- No social insurance numbers on the applications for 2 subsidies
- Missed opportunity to do early and targeted post-payment audits within a restricted scope
- Lack of data to set efficient controls on programs administered by the agency

Why this finding matters

7.40 This finding matters because, without effective controls for validating payments, the integrity of the program is at risk and ineligible employers might receive the subsidy.

Context

7.41 From the beginning, the government promised that the Canada Emergency Wage Subsidy would be paid quickly and stated that the application process relied on the good faith of applicants. The Department of Finance Canada, responsible for informing the subsidy program's design, echoed these expectations by indicating to the Canada Revenue Agency that the program would rely essentially on applicants' self-declarations so that payments could be issued quickly and that audit activities would be performed starting in spring 2021. The agency incorporated these expectations into its business processes to deliver the subsidy.

7.42 The Canada Emergency Wage Subsidy application asked employers to deduct the amount received under other government programs, such as the Work-Sharing Agreement managed by Employment and Social Development Canada and the 10% Temporary Wage Subsidy for Employers managed by the agency. Employers were also required to state the number of employees for whom they applied and their total payroll but not the employees' social insurance numbers.

7.43 Employees were allowed to earn up to \$1,000 per 4-week period while receiving Canada Emergency Response Benefit or Canada Emergency Student Benefit payments. That \$1,000 could be at least partially subsidized to employers by the Canada Emergency Wage Subsidy.

Recommendations

7.44 Our recommendations in this area of examination appear at paragraphs 7.51, 7.58, and 7.64.

Analysis to support this finding

Wage subsidy implemented rapidly

7.45 We found that, to deliver the subsidy, Canada Revenue Agency officials did a large amount of work that would have taken much longer under normal circumstances. The agency developed a risk register and established many committees to facilitate the exchange of information between the numerous branches involved in delivering the subsidy. The agency collaborated with the Department of Finance Canada to develop the legislation and analyzed potential problems related to the subsidy. It also implemented information technology solutions that helped it deliver the subsidy payments rapidly. In addition, agency officials published frequently asked questions on its website to help employers understand this evolving subsidy program. The agency also conducted outreach activities.

Data gaps for pre-payment validations

7.46 We found that the Canada Revenue Agency lacked the up-to-date information it needed to have the ability to carry out pre-payment validations to assess the reasonableness of all the applications for the Canada Emergency Wage Subsidy.

7.47 In performing its pre-payment validations, the agency verified that each subsidy applicant's address and direct deposit information had not changed since the subsidy program began. In addition, the agency used the limited historical information in its systems to validate the reasonableness of some of the applicants' information, such as payroll. In some cases, agency officials asked employers to verbally validate

information in the application. In other cases, agency officials requested additional written documentation. The intent of these controls was to reduce the risk of subsidies being issued to suspicious or ineligible applicants. We noted that the agency rejected few applications before issuing the payments (Exhibit 7.1).

Exhibit 7.1—The Canada Revenue Agency rejected few applications at the pre-payment validation stage

	Number of applications	Initial value of applications (in millions of dollars)	Value of application paid (in millions of dollars)
Total applications	1,741,919	52,055	51,732
Auto-approved applications	1,401,109	33,725	33,725
Applications manually reviewed	340,810	18,330	18,007
Manually approved in full	325,755	17,826	17,826
Manually approved and reduced	7,327	279	157
Manually approved and increased	1,527	15	24
Manually disallowed or cancelled	6,201	210	0

Note: In this table, the number of applications is the sum of requests for the Canada Emergency Wage Subsidy. Each employer submitted 1 request per 4-week subsidy period. This means that if the same employer requested the subsidy for 5 subsidy periods, then the employer submitted 5 applications in total.

Source: Canada Revenue Agency, as of 1 December 2020

7.48 The agency initially established thresholds for certain indicators, such as the value of the claim, to manually validate these applications as an additional precaution. Because the agency received fewer applications than initially expected, it used a lower threshold to trigger a manual review and used the freed-up resources to conduct these manual reviews.

7.49 We found that one major obstacle to effective automated pre-payment validations was that the agency did not always have the most up-to-date information on file to assess an applicant’s revenues. This information would have allowed the agency to validate the

reasonableness and the magnitude of the applicant's declared revenue drop. The following examples as of June 2020 illustrate this data gap:

- For the 2019 calendar year, about 28% of the subsidy applicants (around 62,000 applicants) had not filed a GST/HST return for the 2019 calendar year.
- For the 2020 calendar year, among the recipients who had to file a GST/HST return between January and June 2020 (namely monthly and quarterly filers), 15% (about 21,000 recipients) were non-filers.

7.50 During the course of the audit, we noticed that for the 2019–20 fiscal year, the agency had 273 full-time equivalent employees enforcing GST/HST delinquent filer compliance, with salary expenditures of \$27.7 million. These employees had a fiscal impact of \$3.2 billion during that year. These amounts represent a return on investment of more than 100 to 1. The fiscal impact includes the federal tax, provincial tax, interest, and penalties collected. Given the good return on investment, we encourage the agency to do more of this work.

7.51 **Recommendation.** The Canada Revenue Agency should strengthen its efforts toward tax compliance for the GST/HST to ensure that it has the information needed to do validations for the programs that it is administering.

The agency's response. *Agreed. As noted in the report, in early 2020, the Canada Revenue Agency moved quickly to build programs and related infrastructure to deliver financial support to businesses affected by the COVID-19 pandemic. To alleviate pressures on businesses and to support the implementation of pandemic response programs, the agency shut down most of its compliance programs, including the GST/HST Delinquent Filer program.*

In light of the new COVID-19 benefit programs, the agency will seek to identify opportunities within the GST/HST Delinquent Filer program of the Collections and Verification Branch to strengthen its efforts to improve filing compliance on the part of GST/HST registrants.

Actions in response to this recommendation will include a review of workload selection and prioritization criteria, examination of the level and allocation of program resources, identification of potential legislative changes, and increased outreach to increase compliance regarding GST/HST filing. The action plan will be completed by September 2023.

No social insurance numbers on the applications for 2 subsidies

7.52 During the period of the audit, when employers applied for the Canada Emergency Wage Subsidy, they were required to declare, for each 4-week subsidy period, the total number of employees and the total payroll for which they were requesting the subsidy, but they did not have to provide the employees' names or social insurance numbers. We found that this lack of specific information limited the Canada Revenue

Agency's ability to conduct automated validations before payments were issued, which could have reduced overpayments that will need to be recovered later.

7.53 In the subsidy application during the period of the audit, the employer was required to state the value of its Work-Sharing Agreement with Employment and Social Development Canada and of the 10% Temporary Wage Subsidy for Employers received from the agency. The Memorandum of Understanding with Employment and Social Development Canada on the administration of the emergency benefits during the COVID-19 pandemic did not allow for Work-Sharing Agreement information to be shared. Consequently, the agency will have to rely mainly on post-payment audits to ensure that work-sharing payments from Employment and Social Development Canada were accurately deducted from subsidy payments as required by the subsidy program.

7.54 In addition, the Canada Revenue Agency did not have any information on the 10% Temporary Wage Subsidy for Employers (March to July 2020) calculated per employee because the agency did not require the names or social insurance numbers of the employees for whom the temporary subsidy was paid. Even after employees' tax slips have been filed in spring 2021, and even though the agency administered both subsidies, the agency will still not know for which employees the temporary subsidy was paid to employers unless the agency performs comprehensive audits.

7.55 The absence of social insurance numbers in the application for the Canada Emergency Wage Subsidy also limited the agency's ability to prevent overpayments in the Canada Emergency Response Benefit and the Canada Emergency Student Benefit. Because the agency does not use a unique identifier in the administration of the various programs, it does not have the ability to automatically cross-match data for each program by individual. In the early days of the subsidy program, the agency flagged this as creating a high risk of overpayment.

7.56 Agency officials told us that they could not ask for social insurance numbers at the time of application because the agency did not have the capacity to set up an information technology system quickly enough to accommodate this information when the subsidy program started. Difficulties also arose with regard to the capture and storage of the information in the agency's systems. However, the agency did not re-evaluate its position over time.

7.57 Our findings demonstrate the importance of using a unique identifier for each individual to link applications across different programs and data sources. At the moment, the only unique identifier for individuals is their social insurance number, but this identifier comes with limitations, such as privacy issues and the risk of identity theft. For future emergency programs, we believe it is important to have a

unique identifier that would both provide maximum protection against identity theft for individuals and strengthen the integrity of all emergency programs.

7.58 **Recommendation.** To improve the integrity and validation efficiency of any future emergency programs, the Canada Revenue Agency should use automated validations with a unique identifier that can be used in all programs.

The agency's response. *Agreed. The Canada Revenue Agency is working in partnership with the Treasury Board of Canada Secretariat on its Sign-In Canada platform under the Pan-Canadian Trust Framework. Sign-In Canada will give Canadians one door through which they can access any secure government service that requires robust identity proofing and authentication. In the meantime, we continue to enhance our own authentication and credential management systems through the addition of services like multi-factor authentication.*

Sign-In Canada, while contingent on many factors, is expected to become available in the next 24 to 36 months. The agency will begin to onboard once the platform is proven in production with smaller departments as early onboarders. The agency's multi-factor authentication is currently being rolled out to all users of the agency's portal services. Full rollout is expected to be completed in June 2021.

Missed opportunity to do early and targeted post-payment audits within a restricted scope

7.59 As decided by the government, the agency relied on an applicant's self-declaration of revenue drop, total payroll, and number of employees. The agency knew that there was a higher-than-usual risk of overpayment of the subsidy because of this self-declaration approach. Furthermore, the agency also knew that validation at the time of application is more effective in preventing the risk of overpayments than post-payment audits. However, the government decided to focus mainly on post-payment audits to recover overpayments, and penalties were established to deter misuses.

7.60 We found that the Canada Revenue Agency missed an important opportunity by not conducting targeted post-payment audits during summer and fall 2020 on the basis of the June 2020 findings of its business intelligence exercise. Targeted audits are restricted-scope audits performed only on specific aspects. According to the agency, it was not able to conduct a greater number of targeted post-payment audits because of time constraints and the urgency of releasing the payments to support Canadian employers. In our opinion, targeted audits could have prevented taxpayers' money from being disbursed for the next subsidy claim period to employers that did not meet the eligibility criteria. Instead, the business intelligence results will inform only the risk assessment for the comprehensive audits that will start in 2021.

7.61 With the limited data it had, the agency conducted a business intelligence exercise in June 2020—that is, the agency analyzed data that led to specific insights, which in turn raised some questions about the revenue drops that some employers had declared in their subsidy applications:

- In 35% of subsidy applications, the GST/HST collected in 2020 was 35% higher than the employer's gross revenue as reported on its latest income tax return filed.
- In 42% of the subsidy applications, applicants for which the data was available had an average of 18% more GST/HST collected in 2020 than GST/HST collected in 2019.

7.62 This data provided early indicators that targeted audits were needed in order to ensure the integrity of the subsidy program. Targeted audits could have been done after payments were made, so they would not have slowed the delivery of the subsidy payments. Targeted audits could also have been done more rapidly and perhaps more often, because they do not require the same level of effort by the agency as comprehensive audits. However, the agency did not perform targeted audits. Instead, it used this knowledge only to inform its plans to do comprehensive audits in 2021.

7.63 An important part of the agency's compliance strategy was to conduct post-payment verifications, starting with Phase 1 comprehensive audits in fall 2020. The agency had 2 objectives for its Phase 1 audits:

- Better inform Phase 2 comprehensive audits, which will start in 2021.
- Evaluate the resources needed to conduct Phase 2 audits.

For Phase 1 comprehensive audits, the agency requested many documents from the applicants it audited, because the verifications were manual and exhaustive. The agency audited a relatively small number of the 225,000 applications. The agency began its Phase 1 in August 2020 and planned to have interim results at the end of December 2020. This lengthy process and the associated costs for the agency highlight how pre-payment validations, especially if they are automated, could be more efficient than comprehensive post-payment audits.

7.64 **Recommendation.** The Canada Revenue Agency should strengthen the integrity of the Canada Emergency Wage Subsidy program by using business intelligence information as soon as it is available in order to conduct targeted audits.

The agency's response. Agreed. *Timeliness of compliance actions is important; the Canada Revenue Agency made timeliness one of its key strategic objectives for compliance programs. In relation to the Canada Emergency Wage Subsidy, the agency initiated post-payment*

audits (Phase 1) in August 2020 for this emergency program launched in April 2020. These audits were selected on the basis of the results of pre-payment reviews conducted by technical officers and a random sample from the remaining subsidy-receiving population. Starting subsidy audits before the end of the taxation year is an innovative approach that provides taxpayers with earlier certainty and allows for better stewardship.

In relation to further applying business intelligence, the agency will use Phase 1 audit results to inform and enhance the risk-assessment process for targeted Phase 2 post-payment audits starting in 2021. The agency is continuously investing in improving its risk-assessment systems and business intelligence to better focus its resources on the highest-risk cases of non-compliance at a national level in a timely manner. This action plan will be completed by 1 April 2021.

Lack of data to set efficient controls on programs administered by the agency

7.65 We found that the Canada Revenue Agency did not have all the information it needed to set efficient controls. The agency would have benefited from additional information about other emergency response payments as well as from tax and payroll data that was more frequent and up-to-date than what it had (Exhibit 7.2). Because of this lack of data, the agency will need to rely mainly on comprehensive and costly post-payment audits on a subset of applicants.

Exhibit 7.2—Data gaps prevented the Canada Revenue Agency from performing efficient controls

Type of information	Information that employers declared in their Canada Emergency Wage Subsidy applications	Information the Canada Revenue Agency has that could be used to do validations	Issues with the information the Canada Revenue Agency has for doing potential validations
<p>Payroll: earnings paid to the employees</p>	<ul style="list-style-type: none"> • total number of employees • total eligible remuneration paid • employer’s salary contributions (Employment Insurance, Canada Pension Plan, Quebec Pension Plan, and Quebec Parental Insurance Plan) 	<ul style="list-style-type: none"> • information from previous annual T4 Statement of Remuneration Paid (T4 slip) per employee • total payroll and salary contributions per employer on the T4 Summary of Remuneration Paid (T4 Summary) filed with the agency once a year, at the same time as the T4 slip 	<ul style="list-style-type: none"> • Information per employee is annual, not sub-annual. • The employer does not necessarily have the same employees as it did when the last information was provided to the agency. • The salary and number of hours worked could have changed during the COVID-19 pandemic.

Type of information	Information that employers declared in their Canada Emergency Wage Subsidy applications	Information the Canada Revenue Agency has that could be used to do validations	Issues with the information the Canada Revenue Agency has for doing potential validations
Applicant's revenue	<ul style="list-style-type: none"> percentage of revenue drop for the 4-week subsidy period average revenue drop as a percentage for the previous 3 months 	<ul style="list-style-type: none"> information from the goods and services tax/harmonized sales tax (GST/HST) return as an indicator of revenue information from the annual corporation income tax return (T2) 	<ul style="list-style-type: none"> Some employers are exempt from filing a GST/HST return, file only one time per year, or are late in filing. Some employers are late in filing their T2 corporation income tax return. The T2 information is annual, not sub-annual.
10% Temporary Wage Subsidy for Employers	<ul style="list-style-type: none"> subsidy amount calculated by the employer; no detailed information provided to the agency 	<ul style="list-style-type: none"> previous salary contribution remittances by the employer 	<ul style="list-style-type: none"> Employers did not necessarily apply for the 10% Temporary Wage Subsidy and the Canada Emergency Wage Subsidy for the same employees. No identifying information was provided for each employee for either subsidy—for example, name and social insurance number. The remittances to the agency are not linked to employees, but rather to the employer.
Employment and Social Development Canada's Work-Sharing benefit program	<ul style="list-style-type: none"> amounts received by eligible employees under the program 	<ul style="list-style-type: none"> no information available to the agency 	<ul style="list-style-type: none"> No information was available to the agency because there was no information-sharing agreement with Employment and Social Development Canada. Employers did not necessarily use the Work-Sharing Agreement and the subsidy for the same employees.

Source: First 2 columns based on information from the Canada Revenue Agency

7.66 Because the agency did not have the social insurance number and wages paid per employee and per subsidy period at the time of application, it planned to rely on employees' statements of remuneration paid (T4 slips) to ensure that no overpayments were issued. Therefore, the agency amended the T4 form for the 2020 tax year in order to obtain employees' earnings at multiple times during the year.

7.67 However, we found that the information in the amended T4 form was not detailed enough to be really useful in cross-referencing Canada Emergency Response Benefit and Canada Emergency Student Benefit payments with wages paid and subsidized, at least in part, under the Canada Emergency Wage Subsidy.

7.68 In our view, this situation demonstrates the need for the agency to have sub-annual data and up-to-date earnings and tax data when it administers income support programs with eligibility criteria based on sub-annual earnings.

Conclusion

7.69 We concluded that even though the Department of Finance Canada performed a partial analysis of the initial design of the Canada Emergency Wage Subsidy program, it subsequently performed a sound and complete analysis to inform the changes to the program. We also concluded that although the Canada Revenue Agency delivered the subsidy payments rapidly, it chose not to establish tighter controls, and it lacked the sub-annual and up-to-date earnings and tax information it needed to efficiently assess applications. Therefore, it will have to rely mainly on costly comprehensive audits that will start in spring 2021.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on the Canada Emergency Wage Subsidy. Our responsibility was to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government's management of resources and programs, and to conclude on whether the Canada Emergency Wage Subsidy complied in all significant respects with the applicable criteria.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies the Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from entity management:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

Audit objective

The objective of this audit was to determine whether the Department of Finance Canada provided analysis on the Canada Emergency Wage Subsidy program, taking into account the government's objective of providing financial relief to employers and facilitating a return to economic activity, and whether the Canada Revenue Agency administered the program in a way that would limit abuse by establishing appropriate controls.

Scope and approach

The audit on the Canada Emergency Wage Subsidy program focused on the Department of Finance Canada and the Canada Revenue Agency.

During the audit, we interviewed representatives of the department and the agency. We examined and analyzed documents provided by both organizations. We also analyzed the documents related to the public consultations conducted by the department, and we analyzed public comments on the program from various stakeholders.

We did not test the controls by sampling files.

Criteria

Criteria	Sources
We used the following criteria to determine whether the Department of Finance Canada provided analysis on the Canada Emergency Wage Subsidy program, taking into account the government’s objective of providing financial relief to employers and facilitating a return to economic activity, and whether the Canada Revenue Agency administered the program to limit abuse by establishing appropriate controls:	
The Department of Finance Canada performs analysis to support the development of the Canada Emergency Wage Subsidy program that allows for efficiency, risk management, and potential changes to the program in light of the evolving crisis and recovery.	<ul style="list-style-type: none"> • Policy on Transfer Payments, Treasury Board, 2012 • Management Accountability Framework, Treasury Board of Canada Secretariat • COVID-19 Emergency Response Act, No. 2 • An Act respecting further COVID-19 measures
The Canada Revenue Agency designs and implements efficient controls for the subsidy to provide recipients with no less and no more than the prescribed amount, assesses how these controls were working, and makes necessary corrections in a timely manner.	<ul style="list-style-type: none"> • Taxpayer Bill of Rights, Canada Revenue Agency • Policy on Transfer Payments, Treasury Board, 2012 • Management Accountability Framework, Treasury Board of Canada Secretariat

Period covered by the audit

The audit covered the period from 1 March 2020 to 12 January 2021. This is the period to which the audit conclusion applies.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 12 January 2021, in Ottawa, Canada.

Audit team

Principal: Philippe Le Goff
 Director: Mathieu Lequain
 Audit project leader: Rose Pelletier

List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
<p>Developing and implementing the emergency wage subsidy</p>	
<p>7.35 The Department of Finance Canada should complete and publish an economic evaluation of its wage subsidy programs. (7.26–7.34)</p>	<p>The department’s response. Agreed. The Department of Finance Canada will prepare an evaluation and publish its findings in an upcoming edition of the Report on Federal Tax Expenditures.</p>
<p>7.51 The Canada Revenue Agency should strengthen its efforts toward tax compliance for GST/HST to ensure that it has the information needed to do validations for the programs that it is administering. (7.46–7.50)</p>	<p>The agency’s response. Agreed. As noted in the report, in early 2020, the Canada Revenue Agency moved quickly to build programs and related infrastructure to deliver financial support to businesses affected by the COVID-19 pandemic. To alleviate pressures on businesses and to support the implementation of pandemic response programs, the agency shut down most of its compliance programs, including the GST/HST Delinquent Filer program.</p> <p>In light of the new COVID-19 benefit programs, the agency will seek to identify opportunities within the GST/HST Delinquent Filer program of the Collections and Verification Branch to strengthen its efforts to improve filing compliance on the part of GST/HST registrants.</p> <p>Actions in response to this recommendation will include a review of workload selection and prioritization criteria, examination of the level and allocation of program resources, identification of potential legislative changes, and increased outreach to increase compliance regarding GST/HST filing. The action plan will be completed by September 2023.</p>
<p>7.58 To improve the integrity and validation efficiency of any future emergency programs, the Canada Revenue Agency should use automated validations with a unique identifier that can be used in all programs. (7.52–7.57)</p>	<p>The agency’s response. Agreed. The Canada Revenue Agency is working in partnership with the Treasury Board of Canada Secretariat on its Sign-In Canada platform under the Pan-Canadian Trust Framework. Sign-In Canada will give Canadians one door through which they can access any secure government service that requires robust identity proofing and authentication. In the meantime, we continue to enhance our own authentication and credential management systems through the addition of services like multi-factor authentication.</p>

Recommendation	Response
<p>7.64 The Canada Revenue Agency should strengthen the integrity of the Canada Emergency Wage Subsidy program by using business intelligence information as soon as it is available in order to conduct targeted audits. (7.59–7.63)</p>	<p>Sign-In Canada, while contingent on many factors, is expected to become available in the next 24 to 36 months. The agency will begin to onboard once the platform is proven in production with smaller departments as early onboarders. The agency’s multi-factor authentication is currently being rolled out to all users of the agency’s portal services. Full rollout is expected to be completed in June 2021.</p> <p>The agency’s response. Agreed. Timeliness of compliance actions is important; the Canada Revenue Agency made timeliness one of its key strategic objectives for compliance programs. In relation to the Canada Emergency Wage Subsidy, the agency initiated post-payment audits (Phase 1) in August 2020 for this emergency program launched in April 2020. These audits were selected on the basis of the results of pre-payment reviews conducted by technical officers and a random sample from the remaining subsidy-receiving population. Starting subsidy audits before the end of the taxation year is an innovative approach that provides taxpayers with earlier certainty and allows for better stewardship.</p> <p>In relation to further applying business intelligence, the agency will use Phase 1 audit results to inform and enhance the risk-assessment process for targeted Phase 2 post-payment audits starting in 2021. The agency is continuously investing in improving its risk-assessment systems and business intelligence to better focus its resources on the highest-risk cases of non-compliance at a national level in a timely manner. This action plan will be completed by 1 April 2021.</p>

