

Enhancing Service to Large Businesses

- The Audit Protocol
- Real-Time Audit
- Concurrent Audit
- Single-Window Focus

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Early in 1997, the Canada Customs and Revenue Agency (CCRA) began a number of initiatives to enhance our service to large businesses.

I take pride in the enthusiastic reception these initiatives have received from large corporations. In the past year, interest in our new initiatives has continued to grow. Many large corporations have already entered into an audit protocol which is a key initiative. Other corporations, representing a cross-section of Canadian industries, are currently negotiating one.

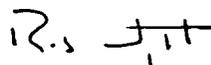
We introduced the audit protocol to increase co-operation, openness, and flexibility in the audit process. Although it is not a legal document, a protocol, developed by a corporation and the CCRA, represents a mutually agreeable framework that establishes guidelines for the audit process and the relationship. Both parties can tailor the agreement to reflect the corporation's unique needs. It covers the CCRA's major audit functions, including any involvement that may be required by specialized audit areas such as international tax, scientific research and experimental development, goods and services tax/harmonized sales tax (GST/HST), excise tax, equity valuations, real estate appraisals, tax avoidance, payroll and revenue collections. If requested, the protocol can include customs duties and provincial taxes.

Our new initiatives also offer corporations the option of real-time audits and concurrent audits. In a real-time audit, the CCRA looks at audit issues before a corporation files its income tax return. In a concurrent audit, the CCRA co-ordinates its audit activities for the taxes it administers, including customs duties and provincial taxes when requested. A number of companies have taken advantage of these options with great success.

Under these new initiatives, the CCRA's large file case manager is responsible for managing the compliance relationship with the corporation for all business lines by developing and maintaining open, co-operative, and timely communication, and working to address all areas in a speedy and professional manner. The large file case manager is a single point of contact for the corporation relating to all audit activities.

We have received excellent feedback from interested parties. Their questions and comments have allowed us to demonstrate the benefits of using audit protocols, real-time audits, and concurrent audits. Their input has helped us improve our service, as well as the information in publications such as this one.

The CCRA recognizes that different corporations have different needs. We are flexible in our goal to improve service, and we are always willing to consult with our clients. I am confident of your continuing interest in this new relationship, which I believe is an efficient, fair, and cost-effective way of doing business.



Rob Wright
Commissioner of the
Canada and Revenue Agency

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An audit protocol or agreement establishes a clear framework between the CCRA and a corporation for the audit process. As it is not a legal agreement, it does not place any additional legal or statutory commitments on the parties.

Objectives

The audit protocol initiative is designed to enhance the compliance relationship between the CCRA and large corporations by increasing the efficiency of the audit process and by creating a more co-operative, open, and transparent relationship. The protocol covers the CCRA's major audit functions, including any involvement that may be required by specialized audit areas such as international tax, scientific research and experimental development, goods and services tax/harmonized sales tax (GST/HST), excise tax, equity valuations, real estate appraisals, tax avoidance, payroll and revenue collections.

Protocols will:

- enhance the relationship between the CCRA auditors and tax specialists for large corporations;
- ensure the most efficient use of resources by both parties;
- provide a comprehensive and co-ordinated approach to the CCRA's audit activities, including concurrent audits of all taxes administered by the CCRA;
- provide greater certainty to the corporation regarding its tax liabilities;
- support the move to current-year audit and real-time audit;
- ensure that the audit plan is as complete as possible and that material compliance issues are disclosed early in the audit;
- delegate responsibility and accountability at a working level while ensuring redress, if necessary, at a senior level;
- ensure the continuity of audit staff on both sides;
- save costs (e.g., interest) by ensuring a quicker resolution of both past and current issues, and a quicker closing of audits;
- provide a framework for parties to consult on the development of an audit plan and the audit process (see "Guidelines for Developing an Audit Plan" on page 7); and
- provide a framework that will facilitate and encourage provincial participation in the development of audit plans and audit activities.

Benefits

The audit protocol benefits both corporations and the CCRA. Benefits include:

- availability of audit compliance checks, which normally result in a reduction in the time required to complete an audit;
- enhanced certainty in the audit process resulting from a more co-operative, consultative, and open approach to audit;
- enhanced ability to become current and remain current, thereby resulting in a more efficient use of resources as the parties will be working with current records and the people involved will likely still be with the company;
- decreased interest expense for corporations, since reassessments will be issued sooner;
- higher priority for real-time audits;
- higher priority for technical and legal opinions; and
- quicker resolution of audit issues and faster closing of the audit itself.

Key elements of a protocol

The key elements of an audit protocol are:

- the multi-year plan;
- the audit plan;
- the relationship between the corporation and the CCRA; and

- the protocol evaluation process.

Multi-year plan

The audit protocol covers a multi-year plan that is mutually determined (preferably a 3-6 year period). It includes both complete audit years and audit compliance check years.

Under the protocol, the parties will mutually determine the starting and tentative completion dates for each audit.

Audit plan

The parties to the protocol will work together to develop an audit plan. In doing so, the CCRA will select issues for audit based on risk analysis. Both parties will develop and implement all other aspects of the audit plan related to process. The plan will be prepared before the start of each audit. It should:

- develop a flexible process for discussion and resolution of material compliance issues;
- provide the means to identify and resolve significant issues up front, to reduce the audit time of both parties;
- provide a clear and concise rationale for all audit issues;
- provide for timely access to appropriate staff and all relevant books and records (including those in electronic form);
- establish time frames that can be revised if necessary;
- take into account the results of other compliance verifications such as internal audits and provincial audits;
- take into account the Appeals Branch's rationale for resolving issues which are relevant in subsequent audits;

- ensure the audit team has the appropriate expertise for all audit activities;
- provide a commitment and a time frame to resolve any outstanding issues from previous audits; and
- establish a process to measure the progress of the audit and adjust the protocol or audit plan as mutually agreed to by the parties.

Protocol relationship

The protocol will be signed, dated, and implemented by the following individuals:

For the CCRA – the large file case manager

For the corporation – the tax manager

These individuals will review progress on the protocol as necessary. If they cannot resolve an issue, senior officials for each party will work to resolve it. Before involving senior officials however, the parties should try to resolve the issue at a working level by making joint representations to other areas within the CCRA, such as Technical Applications and Valuations Division, Compliance Programs Branch or Policy and Legislation Branch in Headquarters.

The large file case manager will be responsible for establishing and managing the protocol and its processes on behalf of the CCRA. For more details, see "Single-Window Focus – Large File Case Managers" on page 10.

Evaluation process

At the end of each audit or compliance check, the parties will hold a post-audit meeting to evaluate the process. By mutual agreement, they will make any required adjustments to the protocol or subsequent audit plans.

Guidelines for Developing an Audit Plan

The audit plan is a key element of an audit protocol. It is prepared before the beginning of each audit under a protocol. The two parties work together to develop and implement the plan.

The audit plan for the first audit cycle should form part of the protocol. Subsequent years' audit plans are developed before the start of each subsequent audit and are signed off by the protocol managers. This will ensure that the parties know up front what is expected from them during the audit.

The following items should be part of an audit plan. Parties to a protocol are free to add other items, as long as they are consistent with the core objectives and key elements of the protocol.

Audit period – Provide the audit period noting the year(s).

Corporations and subsidiaries – Include initially identified companies to be audited.

Outstanding issues – Describe the process to resolve outstanding compliance issues from previous audits.

Initially identified issues – List all initially identified audit issues company by company, as well as all specific information required company by company, and the sequencing of the information flow. The CCRA will select issues for audit based on risk analysis.

Information requirement – List initially identified books and records and information required at the beginning of each audit.

Time frames – List the agreed time frames for all requests issued by the CCRA. Describe procedures for dealing with exceptions. Provide anticipated audit start and completion dates, and agree to inform on a timely basis if the dates are delayed.

When requested, the CCRA will consider doing a real-time audit on agreed issues or a concurrent audit. Both parties in a protocol agreement can consider the possibility of using statistical analysis as an audit tool.

Audit team – Describe the team size, its make-up, and the agreed-on process for team members' involvement in the audit.

Note

The CCRA will keep the corporation regularly informed about the status of the CCRA's queries, findings, and proposed audit adjustments. Indeed, the large file case manager and the tax manager will meet regularly to discuss the progress of the audit.

The audit plan should be dated and signed by the large file case manager and the corporation's tax manager to affirm the commitment.

Real-Time Audit (RTA)

Introduction

A key feature of the CCRA's new approach to a large-business audit is the optional real-time audit (RTA). In an RTA, the CCRA conducts an audit of issues before the corporation files its income tax return. Corporations can request an RTA by either entering into an audit protocol with the CCRA, or providing a letter of co-operation with a request for an RTA. The letter or protocol should identify RTA issues and acknowledge that a high priority from the

corporation will be expected. The letter or protocol will also acknowledge the prerequisites and the process of an RTA, as outlined in this publication.

Objectives

The objectives of an RTA are to reduce audit time and resolve issues quickly (before the tax return is filed). This new approach should improve both service and compliance.

Benefits

RTA benefits both corporations and the CCRA. The benefits include:

- substantial time savings for both parties due to the immediate availability of records and access to the staff involved in their preparation;
- early resolution of recurring items, thereby reducing the number of appeals;
- assistance for the CCRA in its efforts to become and remain current;
- greater certainty for corporations regarding their tax liability on identified issues;
- potential application of findings to past and future years; and
- improved identification of audit and legislative issues.

Prerequisites

The prerequisites for an RTA are:

- a reasonable assurance that the audit can be completed before the deadline for filing the tax return;
- full co-operation and a high priority from the corporation;
- books and records with complete information and documentation on the identified issues;
- the corporation's disclosed tax position on issues; and
- an audit performed on completed transactions with material consequences only. An RTA can be done either after the corporation's fiscal year end or as soon as a transaction has been completed.

Examples of issues suitable for an RTA include:

- recurring items (taxable benefits, reserves, etc.);
- capital versus income;
- classification of fixed assets;
- sale of a division, a plant, etc.; and

- selected research and development issues.

Process

The following items should be part of the RTA process:

- the corporation either enters into an audit protocol with the CCRA or provides a letter of co-operation with a request for RTA;
- the corporation makes the request in writing with sufficient lead time;
- both parties agree to specified time frames and the information and documentation to be provided;
- both parties sign a document outlining agreed positions on issues;
- the parties agree on a statement of facts for issues on which agreement cannot be reached;
- when a settlement is reached on any agreed issue, the corporation signs a waiver of objection before the issue is finalized;
- once the return is assessed, the CCRA ensures that it has been filed according to the positions signed by both parties;
- each issue filed according to an agreed position and with complete disclosure will not be subject to a further audit. The CCRA's policy on opening a previously audited issue or period applies to issues audited under an RTA. The policy states that, as a general rule, the CCRA will not re-open a previously audited issue or period. However, there will be exceptional situations where the CCRA will, and is required to, re-examine a previously audited issue or period to ensure fair administration of the law. In administering this policy for corporations in the Large File Program, which includes large conglomerates and all corporations with gross revenues in excess of \$250 million, tax services offices will consult with the Business Audit Directorate in Headquarters; and

- the CCRA will reassess issues that are not filed according to the agreed positions,

were not fully disclosed, or on which consensus was not reached.

Concurrent Audit

Introduction

Another key feature of the CCRA's new approach to a large business audit is the concurrent audit. In a concurrent audit, auditors may audit books and records for customs duties and provincial taxes, along with the other taxes, at the same time.

Objective

The objective of a concurrent audit is to reduce the audit burden for large corporations by reducing the number of visits from auditors.

Benefits

The benefits include:

- a comprehensive and co-ordinated approach to the CCRA's audit activities, which saves audit time for both parties; and
- the possibility of conducting a concurrent audit with the provinces, streamlining the audit process and saving time for all parties.

Process

The following items should be part of the process for a concurrent audit:

- the request for a concurrent audit with customs or a province will be made in writing by the corporation, either as a

signatory to a protocol or with a letter of co-operation. The letter or protocol will identify the type of tax to be covered, acknowledge that a high priority from the corporation is expected, and describe the agreed process. If the request relates to a concurrent audit with a province, the CCRA will contact the province to solicit its participation;

- the parties agree on the type of tax to be covered (e.g., excise, GST/HST, or customs) and the years for which each tax is to be audited;
- the parties agree to specified time frames and the information and documentation to be provided for each tax;
- the CCRA's large file case manager is responsible for co-ordinating the audit activities for all taxes;
- the members of the audit team will have expertise in the relevant areas, and they will work under the guidance of the large file case manager; and
- the large file case manager will co-ordinate the development of a comprehensive audit plan with input from the audit team.

Single-Window Focus – Large File Case Managers

Introduction

CCRA's large file case manager (the manager) is responsible for managing the compliance relationship with the corporation for all business lines.

Objective

The manager is responsible for the overall compliance relationship so that large corporations will have a focal point for contact for all audit activities. This ensures that audits will have a co-ordinated approach which saves audit time and resources.

Benefits

The benefits include:

- simplified dealings between large corporations and the CCRA on tax and audit matters;
- assurance of quality audits of large corporations through the use of specialists as either advisors or auditors on an audit team;
- assurance of a co-ordinated approach to audit activities, thereby minimizing disruptions to large corporations; and
- better management of the CCRA's resources.

Team audit

The manager uses team audit techniques to conduct a large file case audit. An audit team is composed of a manager, the auditors assigned to the manager (which may vary from two to four depending on the size of the case), and members from the required specialized audit areas.

In special cases, when a corporation requests a slower integration of the members of the audit team, the manager will work with the corporation to determine how and when the full audit team can perform future audits.

Role of large file case managers

Large file case managers:

- establish and manage the protocol and its processes;
- identify and procure any expertise that may be needed on the team from any specialized audit area (e.g., international tax, scientific research and experimental development, goods and services tax/harmonized sales tax (GST/HST), excise tax, equity valuations, real estate appraisals, tax avoidance, payroll, information technology);
- develop and maintain open, co-operative, and timely communication, and work to address all areas of disagreement in a speedy and professional manner;
- contact industry specialists to ensure a proper understanding of the context in which the large corporation operates, identify the issues that need to be addressed, and bring significant issues to the attention of industry specialists;
- establish contact with provinces to solicit their interest in participating in the protocol and the audit process;
- manage the audit process and audit issues in a timely, open, and comprehensive manner;
- ensure that all material issues are identified, examined, discussed and, if possible, resolved;
- seek opinions on a timely basis from Technical Applications and Valuations Division, Compliance Programs Branch or Policy and Legislation Branch in Headquarters, and enlist the support of the Large Business Audit Directorate in Headquarters if necessary; and
- provide a statement on compliance at the end of the audit, and provide a commitment to work with the corporation to address any identified compliance issues for future audits.

Questions and Answers

Audit protocol

Q.1 What are the benefits of signing a protocol when a corporation has no problems dealing with the CCRA?

A.1 The aim of the initiative is to enhance the audit process by increasing co-operation, openness, and transparency. With protocols, a well-functioning relationship is established and formalized at the outset through consultation on development of an audit plan. Protocols support the move toward real-time audits and current-year audits. Other benefits include: availability of audit compliance checks, which normally result in a reduction in audit hours; decreased interest expense for corporations, since reassessments will be issued sooner; a comprehensive and co-ordinated audit; more efficient use of resources; a quicker resolution of audit issues; and a faster closing of the audit itself. If a high level of compliance and co-operation already exists, the protocol will build on the relationship and ensure that it continues in the future.

Q.2 Are protocols limited to large corporations?

A.2 Given the greater complexity and variety of issues normally associated with large businesses, the audit protocol process has been designed to enhance service to corporations in CCRA's Large File Program.

In order to maximize the potential benefits of the process, the Large File Program has been expanded to include all of the approximately 540 large conglomerates and corporations with gross revenues in excess of \$250 million, from the 220 cases previously referred to in the 1996 protocol publication.

Q.3 Can a protocol be entered into for one or more issues, instead of for the full corporate tax return?

A.3 No. Protocols are to be entered into for the full tax return, managing the entire audit process. A corporation may request a real-time audit to cover one or more issues.

Q.4 What is the minimum or maximum period for which a protocol can be entered into?

A.4 A protocol is a multi-year plan. However, there is no minimum or maximum period. Each case will be considered on its own merit and be mutually determined by the parties. A period of 3-6 years is recommended.

Q.5 Is there flexibility in who signs the protocol?

A.5 The large file case manager and his or her counterpart in the corporation should sign the protocol. It is the spirit of co-operation and the mutual commitment to do the job well that is most important. If a corporation requests that the protocol be signed at any other level, the CCRA will accommodate the request.

Q.6 Can modifications be made to the model protocol?

A.6 Yes. If a corporation wants to enter into a protocol, discussions will tailor the protocol for that particular corporation. The protocol may include a process to adjust its elements through mutual agreement.

Q.7 How does a complete audit differ from an audit compliance check under a protocol? How much audit time will be reduced in years with audit compliance checks?

A.7 In years with audit compliance checks, auditors will rely more on analytical audit techniques to verify compliance. The intent is to ensure compliance, and that tax liabilities are being met, more quickly than in a complete audit year.

The amount of time it takes for an audit compliance check will depend on the issues involved in the specific case.

Q.8 Does the audit compliance check apply to any year covered under the protocol?

A.8 An audit compliance check may be carried out in any year. However, a minimum of one audit compliance check and one complete audit must be carried out under a protocol.

Q.9 Does a protocol have to describe the type of audit for any subsequent audit cycle?

A.9 The type of audit for the years in any subsequent audit cycle can be determined before the protocol is signed, or the protocol may simply state that this will be determined following completion of the first audit cycle. An audit cycle normally covers two years.

Q.10 Can the CCRA adjust years for which either audit compliance checks or complete audits were carried out?

A.10 As a general rule, the CCRA will not re-open a previously audited issue or period. However, there will be exceptional situations where the CCRA will, and is required to, re-examine a previously audited issue or period to ensure a fair administration of the law. Before adjusting an issue, the CCRA will ensure that the issue is significant and material. In administering this policy for large corporations, tax services offices have to consult with Headquarters. The corporation can also identify audit issues up front when seeking greater certainty regarding its tax liability.

Q.11 Is there flexibility in who reviews the progress of the protocol and who gets involved in solving disputes?

A.11 The protocol, including a dispute resolution process, will be managed by the large file case manager and the corporate signatory. However, if an issue cannot be resolved at that level, the protocol will be flexible to allow senior

managers' involvement on an efficient and a timely basis.

Q.12 Does an audit plan have to be prepared before signing a protocol?

A.12 The audit plan for the first audit cycle should be prepared before the protocol is signed. The plan will form part of the protocol. Audit plans for subsequent years will be developed before each audit starts, and will be signed off by the protocol managers. This will ensure that the parties know up front what is anticipated from them during the audit.

Q.13 Will the CCRA sue a corporation or its officers for not following a signed protocol?

A.13 The CCRA cannot and will not sue a corporation or its officers for not following a protocol. The protocol is **not** a legal document and therefore does not place any additional legal or statutory commitments on the signatories. It is simply an understanding of co-operation and openness.

Q.14 Are benefits of a protocol available to a corporation that does not enter into a protocol, or revokes it after entering into it?

A.14 No. The benefits of a protocol are only available to its signatories.

Q.15 Will the protocol apply at the individual company level or at the case level (including controlled files)?

A.15 The protocol will apply at the case level. It should cover all files in the case. The CCRA expects that the protocol will be signed by all responsible tax managers, or by a company official who oversees all companies in the case. Separate annexes may be used when different tax managers are signing for their respective companies in the case. (In split cases, it may also be possible to have a single protocol.)

Q.16 Does the protocol cover branches and divisions located outside Canada that operate independently of a Canadian parent and report to a higher foreign parent company?

A.16 Yes. All branches and divisions in the case should be part of the protocol.

Q.17 Will the CCRA consider co-ordinating audits with provinces or even becoming partners with provinces in a protocol?

A.17 The CCRA views both options as desirable. Both federal and provincial governments want to streamline their tax administrations. Concurrent federal and provincial tax audits would benefit both parties through partnership efficiencies. The CCRA will consider any request for a co-ordinated audit, and will take the necessary steps to explore this possibility with the relevant provinces.

Real-time audit (RTA)

Q.18 Is real-time audit (RTA) available to corporations that do not enter into an audit protocol?

A.18 Yes. If a corporation prefers to provide a letter of co-operation along with a request for RTA without entering into a protocol, the CCRA will accommodate the request.

Q.19 Can the corporation request a complete audit under RTA as opposed to an audit of specific issues?

A.19 Our experience in large file audit suggests that it would be difficult, if not impossible, to conduct a complete audit within the time frame available under RTA.

Q.20 Will the CCRA meet its objective of becoming current by getting involved in RTA with corporations?

A.20 Becoming current is an essential first step in the move to RTA. The protocol will assist us in becoming current. The time savings resulting from performing a RTA on some issues will enhance the

CCRA's efforts to become current. If issues under a RTA have some relevance to other years, the RTA's findings may be applied to those years.

Q.21 Will the CCRA accommodate all requests for RTA?

A.21 The CCRA will accommodate any RTA request provided the following prerequisites are met:

- there is reasonable assurance that the audit can be completed before the deadline for filing the tax return;
- there is full co-operation and a high priority from the corporation in responding to audit queries;
- the audit is for completed transactions with material consequences only;
- the books and records to be audited contain complete information and documentation on the identified issues; and
- the corporation discloses its tax positions on the issues included in the audit.

Q.22 Are corporations required to treat issues in their tax returns based on CCRA's positions?

A.22 The overall objective of RTA is to reduce audit time and resolve issues quickly (i.e., before the tax return is filed). However, if the parties cannot resolve an issue, the corporation can file its return based on its position. The CCRA will reassess the issue. The regular objection and appeal procedures will then apply.

Q.23 Can an issue audited under RTA be opened for a subsequent review or reassessment?

A.23 Each issue filed according to an agreed position and with complete disclosure will not be subject to further audit. The CCRA's policy on opening previously-audited issues or periods equally applies to issues audited under an RTA. The policy states that, as a

general rule, the CCRA will not re-open a previously-audited issue or period. However, there will be exceptional situations where the CCRA will, and is required to, re-examine a previously audited issue or period to ensure a fair administration of the law. In administering this policy for large corporations, tax services offices will consult with the Business Audit Directorate in Headquarters.

Concurrent audit

Q.24 Can a taxpayer request a concurrent audit of customs duties or provincial taxes without entering into a protocol?

A.24 Yes. If a corporation prefers to provide a letter of co-operation with a request for a concurrent audit of customs duties or provincial taxes without entering into a protocol, the CCRA will accommodate the request. If the request relates to a concurrent audit with a province, the CCRA will contact the province to solicit its participation in a concurrent audit.

Q.25 If a concurrent audit with a province is not possible, will the CCRA participate in resolving issues where provincial positions differ from those of the CCRA?

A.25 If requested to do so by both the taxpayer and the provincial tax authorities, the CCRA will participate in discussions and in resolving matters affecting both tax jurisdictions.

Q.26 Who would co-ordinate a concurrent audit?

A.26 The CCRA's large file case manager is responsible for co-ordinating the audit activities for all taxes under the audit protocol. This means one audit team led by the large file case manager.

He or she is responsible for managing the compliance relationship with the corporation, and is able to call on departmental expertise as needed.

Q.27 Will concurrent audits be for the same years for all taxes?

A.27 Not necessarily. As the CCRA becomes current and moves into real-time auditing, the audit periods for different taxes will get closer.

Single-window focus – Large file case managers

Q.28 Can a corporation approach the large file case manager (the manager) as a first contact for all its dealings with the CCRA?

A.28 Yes. The manager is responsible for the compliance relationship with all large corporations on behalf of the CCRA. The manager's role includes establishing and managing the audit protocol and the processes identified in it. Managers actively participate in large file audits, and co-ordinate all related activities by the team members.

Q.29 How will the manager determine the size of the audit team and its composition to conduct a large file audit?

A.29 An audit team is composed of a manager, the auditors assigned to the manager (which may vary from two to four depending on the size of the case), and any members that may be required from specialized audit areas, such as international tax, scientific research and experimental development, goods and services tax/harmonized sales tax (GST/HST), excise tax, equity valuations, real estate appraisals, tax avoidance, and payroll. The composition of audit teams will vary with each large file audit, depending on the issues identified.

Q.30 Will the team size be agreed to with the corporation before the audit?

A.30 Yes. In developing an audit protocol, the parties will agree to the team size. The CCRA's objective is to conduct large file audits using a full audit team.

However, in special cases, when a corporation requests a slower integration of the members of the team, the manager will work with the corporation to determine how and when the full audit team can perform future audits.