

## We're Calling to Set Up A Time To Do An Audit

The Charities Directorate of Canada Customs and Revenue Agency (CCRA) has many responsibilities toward charities. One that creates a chilly wind for most charities is the telephone call saying that CCRA wants to do an audit. While concern might be reflexive, it isn't often warranted. The *Income Tax Act (Act)* requires every registered charity (and every registered Canadian amateur athletic association) to keep certain records and books of account at a Canadian address. These books need to contain and present information so CCRA can satisfy itself that the charity is operating within the requirements of the *Act*. One specific requirement is for a set of duplicate receipts, with related detail allowing CCRA to verify donations, which might result in a possible deduction or tax credit.

This column reviews some of the issues relating to audits of charities by CCRA. The vast majority of audits result in a confirmation of compliance from CCRA or direction from it to the charity about some minor record transgression. Knowing what an audit involves and why it might happen can be helpful both in lessening anxiety and being sure that if it does happen, the proper materials are available.

### What is an Audit?

An audit is an examination of records or financial accounts to check their accuracy. The word comes from the Latin *auditus*, which has its origins in the concept of hearing, because originally accounts were read aloud. Looking at a charity's financial and other records allows CCRA to make an assessment about whether the charity is following its charitable purposes in accordance with the requirements of the *Act*.

### Why Do Audits Occur?

CCRA indicates that there are a number of possible reasons a charity is identified for audit:

- by random selection;
- to review specific legal obligations under the *Act*;
- to follow-up on possible non-compliance or complaints;
- to confirm assets have been distributed after revocation; and
- to help CCRA understand the purposes and activities of an organization that is applying for registered status.

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This last point is little known. An applicant for charitable registration can be audited before that status is granted to help the Directorate determine if it meets the *Act's* requirements as a charity. The CCRA is required to ensure that all charities comply with the *Act*. In the audit context, CCRA carries out its mandate by reviewing information provided to it by the charity in its application and otherwise, including

making notes of phone conversations and looking at the annual filing of the T3010.

## What is Required from the Charity When an Audit is Done?

CCRA expects that the charity will within reason

- make available all requested information and office space;
- provide time to conduct the review without any unreasonable delays; and,
- during the course of the audit, treat the CCRA representative in a professional and courteous manner at all times.

Once the audit has been reviewed, there are four ways the audit may conclude:

- Confirmation of Compliance;
- Education;
- Undertaking; or
- Administrative Fairness Letter (AFL).

Except for confirmation of compliance, it is the degree and material nature of the non-compliance that will be the key factor determining which letter CCRA sends.

## Confirmation of Compliance Letters

Where CCRA reviews a charity's operations and doesn't find a failure to comply with the requirements of the *Act* – the most common situation – CCRA sends a letter confirming compliance with the *Act*, explaining that the audit is complete and that the charity is in full compliance.

## Education Letters

CCRA sends an education letter when the auditor finds minor non-compliance with the *Act* and CCRA determines that it can inform and educate the charity on ways to correct the non-compliance. Usually no response is required from the charity.

## Undertaking Letters

In a number of situations, undertaking letters are issued where the non-com-

pliance, while serious, does not warrant revocation of the charity's registration as a charity. When this happens, CCRA asks the charity to provide a written undertaking, specifying how it will put measures in place to correct the situation identified.

Where a request for an undertaking is not answered, CCRA might decide to send an Administrative Fairness Letter to stress how serious a situation the charity

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faces. When undertaking results in a response that CCRA accepts, it will expect the charity to comply. If later there is a further visit or partial audit and it is determined the charity is not complying with the *Act*, CCRA may then, without more, issue an Administrative Fairness Letter.

## Administrative Fairness Letter

An AFL is sent to a charity when CCRA determines that the failure to comply with the *Act* is serious and that CCRA is justified in revoking the charity's registered status. This situation is set out in a proposal letter and representations from the charity are invited. The charity is given time to present its case before a Notice of Intent to Revoke Registration is issued. All representations by the charity are answered by CCRA. It usually requires a response from the charity within 30 days of the AFL being sent, though no reasonable request for an extension will be denied.

## A Notice of Intent to Revoke

Registration confirms CCRA's decision to revoke registration. Where the status of a charitable organization is revoked, the charity still has 30 days from the mailing of the notice the recourse to file a Notice of Appeal with the Federal Court of Appeal.

## Future Audits

While it is possible that a charity may be audited in the future, where there is compliance and the charity otherwise remains in compliance with the *Act*, CCRA as a matter of practice will not select the charity for audit again for a period of not less than three years from date of the last audit.

This column is based on information provided by the Charities Directorate in a draft Protocol posted on its website at [www.ccr-aadrc.gc.ca/tax/charities/disclaimer-e.html](http://www.ccr-aadrc.gc.ca/tax/charities/disclaimer-e.html), which should be carefully reviewed.

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