

We're Calling to Set Up a Time to do an Audit

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The Charities Directorate of the Canada Revenue Agency (CRA) has many responsibilities toward charities. One that creates a chilly wind for most charities is the telephone call saying that CRA 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 CRA 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 CRA 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 CRA. The vast majority of audits result in a confirmation of compliance from CRA 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 records 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 CRA 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?

CRA 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 CRA understand the purposes and activities of an organization that is applying for registered status.

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 CRA is required to ensure that all charities comply with the Act. In the audit context, CRA 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?

CRA 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 CRA 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 CRA sends.

Confirmation of Compliance Letters

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

Education Letters

CRA sends an education letter when the auditor finds minor non-compliance with the Act and CRA 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-compliance, while serious, does not warrant revocation of the charity's registration as a charity. When this happens, CRA 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, CRA might decide to send an Administrative Fairness Letter to stress how serious a situation the charity faces. When undertaking results in a response that CRA 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, CRA may then, without more notice, issue an Administrative Fairness Letter.

Administrative Fairness Letter (AFL)

An AFL is sent to a charity when CRA determines that the failure to comply with the Act is serious and that CRA 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 CRA. 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.

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A Notice of Intent to Revoke

Registration confirms CRA'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 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, CRA 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. For more information see CRA's webpage on Audits and Sanctions at www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/dts-eng.html

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