

**HEADQUARTERS
LEGISLATIVE POLICY AND REGULATORY AFFAIRS
BRANCH
CHARITIES DIRECTORATE**

COMPLIANCE DIVISION

CHARITY AUDIT PLAN

2013-2014

Draft February 22, 2013

003807

OVERVIEW

The charity audit plan for 2013-2014 is comprised of two distinct programs, the “*Field Audit Program*” and the “*Office Audit Program*”. This document provides an overview of the major categories of workload and provides a summary of the number of audits planned for each component of the program.

a) Description of the Programs

The mandate of the Charity Audit Program is to enhance compliance with provisions of the legislation administered by the Canada Revenue Agency (CRA) and to encourage and assist registered charities to comply with the requirements of the legislation through a balanced program of education, service and responsible enforcement. Fundamental to meeting this objective is ensuring that we achieve appropriate levels of coverage through quality audits and verification activities.

Quality audits afford a reasonable degree of comfort as to the level of compliance with consideration given to relative risk, materiality and economy of approach.

The *Charity Field Audit Program* is delivered through the Compliance Program Branch (CPB) and the designated Tax Services Offices (TSO) across the country. Audits are generally conducted at the charity’s premises, and on registered charities of varying complexity. The types of audits are a mix of full scope and restricted audits.

The *Charity Office Audit Program* is centralized at Headquarters (HQ) in the Charities Directorate, Compliance Division. The workload consists of files that, due to the nature and/or complexity of the issues, allow them to be more effectively conducted from HQ.

b) Risk Management

At an Agency level, quality charity audits are necessary to mitigate CRA identified risks such as Reporting Non-Compliance and Aggressive Tax Planning.

21(1)(b)

c) Targeted Population

There are over 86,000 registered charities, and approximately 4,200 other qualified donees¹, 16(1)(c) for the fiscal year 2013-2014. Our objective is to maintain 1% coverage on a yearly basis, which is consistent with other compliance programs within CRA.

¹ According to our website there are approx. 16(1)(c)

944 audits are planned for the 2013-2014 fiscal period, and are allocated as follows:

Charity Field Audit Program (820 audits, 56 FTEs)

Regions and TSOs	Atlantic-Halifax	Québec-Montreal	Ontario – Kingston	Ontario-Kitchener	Prairies-Edmonton	Pacific-Victoria	Total
Budgeted 2013-2014 based on 60hrs/files (AU01)	16(1)(c)						624
Qualified Donee audits - based on 60hrs/files (AU01)							140
Budgeted 2013-2014 Based on 95hrs/files (AU02)							36
Political Activity audits Based on 340hrs/file (AU02)							20
TOTAL	85	180	67	202	149	137	820
FTEs	6	12	5	14	10	9	56

Charity Office Audit Program (124 audits, 7 FTEs)

A total of 7 FTEs have been assigned to this program.

SOURCE OF AUDIT WORKLOAD

The audit plan for 2013-2014 will be comprised of nine (9) categories listed and explained below.

The largest workload is dedicated to what we know or perceive to be high risk files. Included in this category of files are complex donation arrangements including registered and unregistered tax shelters and false receipting schemes; two of the major compliance issues still facing the Directorate at this time. Other areas of concern in this category include 16(1)(c)

A substantial portion of the audit plan will be dedicated to conducting random audits for the purpose of assessing the degree of compliance across the country.

The 2011 federal budget proposed several measures affecting qualified donees. This year's audit plan will include books and records audits of qualified donees that are now subject to new record-keeping requirements.

The 2012 federal budget included several items affecting registered charities. This year's audit plan will include full-scope and focused audits on registered charities that may conduct higher than acceptable amounts to political activities or may be established for political purposes.

For 2013-2014, the files selected by the Compliance Division for Field and Office Audit will fall within one of the following categories:

Field/Office	<input type="radio"/> 46%	High Risk files (431 audits: 12 Office & 419 Field)
Office	<input type="radio"/> 6%	Compliance Agreement Reviews (60 audits)
Office	<input type="radio"/> 2%	Exploratory audits – 16(1)(c) (20 audits)
Office	<input type="radio"/> 3%	Budget 2011 - RCAA (32 audits)
Field	<input type="radio"/> 13%	Core Audit Program – Random (125 audits)
Field	<input type="radio"/> 9%	Restricted Audits – books and records reviews (80 audits)
Field	<input type="radio"/> 15%	Qualified donee audits (140 audits)
Field	<input type="radio"/> 4%	16(1)(c) Aggressive Tax Planning and Complex AU02 Related issues (36 audits)
Field	<input type="radio"/> 2%	Political Activities (20 audits)
	<u>100%</u>	Total (944 audits)

High Risk Files

The following types of files have been identified by Compliance as having the highest potential for non-compliance. This determination is largely based on the experience of the audit staff, the knowledge of the particular sectors, and on the results of previous audits. In some cases, these files are handled on a priority basis by both Field and Office Audit.

Files will be selected for audit based on highest risk overall within the following areas:

- registered charities, and charities applying for registration, which are known to be or suspected of being involved in donation arrangements or false receipting schemes;
- informant leads from the public;
- media articles;
- CRA internal / external referrals; and
- data analysis using computerized risk assessment queries.

All informant leads and referrals are reviewed and assessed for risk. Files with highest potential of non-compliance are selected for audit.

The major sources of high risk files from within Charities Directorate include those from other sections such as Determinations and Client Services. Referrals are also received from many other areas of CRA including Enforcement, Aggressive Tax Planning, Tax Services Offices and Tax Centres.

Also, file selection for specific areas of the 2013-2014 audit workload will continue to be done manually by experienced staff at Headquarters.

16(1)(c) and 21(1)(b)

Compliance Agreement Reviews

Review of compliance agreements 16(1)(c) in part due to the recommendations in the OAG report². Compliance agreement reviews (formerly undertakings) became a prominent part of our compliance program in late fiscal 2005-2006. In order to evaluate their effectiveness and ensure that charities adhere to the agreements, follow-up audits are conducted.

16(1)(c)

to verify the level of compliance.

16(1)(c) and permits us to

determine if the charity is meeting its obligations as set out in the compliance agreement.

It is anticipated that at least 60 audits will be generated through this review. Office Audit will conduct the majority of these audits; however, higher risk files or those requiring on site audit work will be referred to Field Audit as necessary.

Exploratory Audits

Part of our program will be dedicated to conducting audits in areas that have had minimal coverage. The purpose of conducting the audits is to explore whether there are any compliance issues in those particular areas or types of files.

For 2013-2014, Office Audit will be conducting approximately 20 exploratory audits on charities which have been identified as 16(1)(c)

² Recommendation 7.43 - The Canada Revenue Agency should evaluate the effectiveness of its use of various tools such as sanctions and compliance agreements to increase registered charities' compliance with the *Income Tax Act*.

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Budget 2011 – RCAAAs

According to Budget 2011's legislative changes, the regulatory regime that applies to registered charities was extended to include registered Canadian amateur athletic associations (RCAAAs).

The legislative changes included the requirement that RCAAAs now have the promotion of amateur athletics in Canada on a nation-wide basis as their exclusive purpose and exclusive function. Also, RCAAAs are now subject to the same sanctions as registered charities for breach of its registration requirements; namely a monetary penalty, the suspension of qualified donee status or the revocation of registration.

For 2013-2014, Office Audit will be conducting approximately 32 audits on RCAAAs.

Core Audit Program - Random

The Core Audit Program (CAP) is designed to evaluate the level of compliance and the effectiveness of CRA's risk assessment system in identifying high-risk files.

The 2010 Report of the Auditor General of Canada recommended that the Canada Revenue Agency should develop and execute a random sampling plan to meet its commitment to report a compliance rate for registered charities (OAG recommendation 7.37).

A random sampling methodology was created and is now being utilized to select files for audit. Charities that 16(1)(c) The random audits must be completed before the end of this fiscal period, 2013-2014.

For 2013-2014, 125 CAP audits will be undertaken on registered charities designated as 16(1)(c) The CAP audits for 2011-2012 were undertaken on registered charities designated as 16(1)(c) and for 2012-2013 were undertaken on registered charities designated as 16(1)(c)

Restricted Audits

The purpose of this workload is to conduct books and records reviews that allow us to assess the level of compliance with the legislation through increased coverage and visibility. This is consistent with the Directorate's educative approach to compliance, and fosters a good relationship with the voluntary sector.

A total of 80 reviews will be conducted in 2013-2014, on selected low risk 16(1)(c)

Qualified Donee Audits

According to Budget 2011's legislative changes, qualified donees have new record keeping requirements. Qualified donees are required to maintain proper books and records and provide access to those books and records to the CRA when requested. Our qualified donee audits will focus on education. However, new provisions in the Income Tax Act allow for more severe compliance action in applicable situations.

A total of 140 reviews of qualified donees will be conducted in 2013-2014. We plan to commence these audits with qualified donees that are already identified and listed, such as municipalities and prescribed universities outside of Canada. Going forward, we plan to expand the audits to include low-cost housing corporations for the aged, municipalities, municipal or public bodies performing a function of the government in Canada, prescribed universities outside of Canada and gifts to certain charitable organizations outside of Canada.

Complex AU02 Related issues

This workload is concerned with the more complex, and potentially more serious, compliance issues. These involve cases of Aggressive Tax Planning. This workload also involves

16(1)(c)

A total of 36 audits are planned for 2013-2014.

Political Activities

As a result of Budget 2012, additional resources were provided for increased monitoring and compliance activities with respect to the political activities of registered charities. This includes the screening and monitoring of files, followed by various interventions including T3010 reporting errors, reminder letters and full or focused audits.

The files are selected in a similar manner as described above in the "High Risk File" section, through various sources:

- leads /referrals;
- media articles;
- internal transfers;
- Related files/ research and
- Self-identified organizations through the T3010 source.

A total of 20 full or focused audits of political activities will be started in 2013-2014. The screening, monitoring and reporting errors/reminder letters will be on-going.

PROGRAM PLAN SUMMARY

The following section summarizes the planned number of files based on workload sources for each of the two components of our audit program, Field Audit and Office Audit.

FIELD AUDIT PROGRAM*

<u>Source of workload</u>	<u>Planned # of audits</u>
High Risk Files	419
Core Audit Program – Random	125
Restricted audits – Books and Records reviews	80
Complex - AU02 issues	36
Qualified Donees	140
<u>Political Activities</u>	<u>20</u>
Total	<u>820</u>

*See Appendix A attached for a breakdown of planned files by workload source for each of the TSOs.

OFFICE AUDIT PROGRAM

<u>Source of workload</u>	<u>Planned # of audits</u>
High Risk Files	12
Compliance agreement Reviews	60
Exploratory audits	20
Budget 2011 – RCAA reviews	32
Total	<u>124</u>

Also, the monitoring component of Office Audit will continue to focus on: monitoring and review of Notice for Incomplete T3010 (RC283's), and; begin a review of inactive charities.

APPENDIX A

SOURCE OF WORKLOAD	TOTAL PLANNED	ATLANTIC - HALIFAX (10.3%)	QUEBEC-MONTREAL (20.7%)	ONTARIO-KINGSTON (10.3%)	ONTARIO-KITCHENER (24.3%)	PRAIRIES - EDMONTON (20.7%)	PACIFIC-VICTORIA (13.7%)
HIGH RISK FILES	419						
CORE AUDIT PROGRAM - RANDOM	125						
RESTRICTED AUDITS - LOW RISK REFERRALS	80						
SUBTOTAL	624	64	130	64	151	129	86
16(1)(c) Aggressive Tax Planning and Complex AU02 Related Issues*	36						
QUALIFIED DONEES	140						
POLITICAL ACTIVITIES	20						
TOTAL	820	85	180	67	202	149	137

- Planned numbers are based on % of audits for each TSO, in the case of the High Risk, Random, and Restricted Workloads
- Actual files distributed to the TSOs will be based on highest risk files; therefore, numbers of files sent may vary from plan.
- AU02 files are counted separately, they do not form part of the percentage points as listed under source of workload percentages. They are simply allocated to the 3 TSOs.
- Qualified Donee audits are calculated separately and allocated based on number of FTEs approved for the workload across each TSO, except Kingston.
- Political Activity audits are calculated separately and allocated based on number of FTEs approved for the workload across each TSO.

Screening Files from the PA Caution Source (CP24)

Rationale and Process

Compliance Framework - Activities Section II – Year 2

Rationale:

- Files are currently screened from several sources, including the T3010 Indicator source, Media, Related Files, External Leads, and Internal Referrals.
- Additionally, charities that were given a Political Activities Caution (CP24) in their Notifications of Registration (and Re-Registration) are a source for screening.
- By using this as a source for screening, we will be able to identify charities that may be carrying out excessive and/or prohibited political activities, in spite of their being given a Political Activities Caution in their Notifications of Registration (or Re-Registration).
- Additionally, the information gained from this particular screening source may assist the Determinations Section of the Charities Directorate in gauging the usefulness of the Political Activities Caution in the Registration Letters.

The following Common Paragraph 24 (CP24) is being used as our screening source. (The French version of the CP is being used for the French files.)

Common Paragraph 24:

Political Activities

The Charity must devote all resources to its charitable purposes and activities. The Income Tax Act does not allow organizations established for a political purpose to be registered as a charity. Political purposes are those that:

- *involve direct or indirect support of, or opposition to, any political party or candidate for public office; or*
- *retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country.*

The Charity may take part in some types of political activities if they further its charitable purposes and are non-partisan. For more information, we refer to our policy statement

Process:

- In order to select the files to be screened, the Charities Tracking System (CTS) was used.
- As CTS has only been utilized since 2007, we only have information on charities from 2007 to 2013.
- In CTS, by carrying out a 'Search for Documents', it is possible to determine the precise number of charities that were registered with CP24, since CTS was first used.
- Once in the 'Search for Documents' page, the word "partisan" can be used as the Query (key word), and under the Category, "ADM – Notification of Registration" (or Re-Registration) is chosen as the document type. (Note: The word "partisan" is used as the key word, as CP24 is the only common paragraph that contains that word, and it is the same in both French and English.)
- The search can then be further narrowed by choosing the dates between which the files were closed. For example, for a search of all registrations that included a CP24 in 2010, the dates chosen would be between January 1, 2010 and December 31, 2010. The same would then be done for re-registrations.

The total number of registrations and re-registrations in CTS that included CP24 (both English and French) were as follows:

Year	Registrations	Re-Registrations
2007	45	4
2008	71	1
2009	67	3
2010	38	6
2011	60	3
2012	54	2

- The total number of registrations and re-registrations containing CP24 for all six years is 354.
- It was decided that files would initially be screened from one year.
- Knowing that some of the screened files may be selected for audit, there were a few factors that were considered in selecting the year from which to screen.

- Charities needed to be in operation long enough to have substantial activity information, as opposed to younger charities that may not have all of their programs in place yet.
- As well, it was necessary to select charities that have filed at least a few T3010s in order to get adequate information on the entirety of their revenue and expenditures.
- Keeping the above factors in mind, the 16(1)(c) Registrations and Re-Registrations with CP24 paragraphs were chosen, for a total of 16(1)(c) files to screen. This was felt to be a manageable number for the Political Activities team, and it will be good basis for going forward. Depending on the results of the screening for these specific files, the screening will either continue for other years, or this specific source of screening will be discontinued.

Other Factors to Consider:

- Of the 16(1)(c) files that were ordered from Records, 6 of those files have already been revoked: 3 for failure to file, and the other 3 as voluntary revocations.
- Additionally, there are 4 files from the list of 16(1)(c) that are currently with other sections. One of those files had been with our team, but was later transferred to Activities Section I, and three files are currently with the Kingston TSO. One of those three (a re-registration from 24(1)) is currently being audited for Political Activities.
- Therefore, of the 16(1)(c) files that were ordered, we received and currently have 16(1)(c) files to screen.
- Of the 16(1)(c) files that we currently have, 16(1)(c) are English files and 16(1)(c) are French.
- Of the 16(1)(c) files, 16(1)(c) are Registrations and 16(1)(c) are Re-Registrations.
- Of all 16(1)(c) files from 16(1)(c) with CP24 in their Notifications of Registration/ Re-Registration, only 16(1)(c) files were also on our T3010 Indicator source master list (which lists all charities from 16(1)(c) that indicated at 2400 and/or 5030 of their T3010s that they carry out political activities). This means that only 16(1)(c) of the charities with the political activities caution (CP24) registered or re-registered in 16(1)(c) claimed to have spent money on or carried out political activities in their 16(1)(c) T3010s.¹

In Conclusion:

60 files that were registered or re-registered in 16(1)(c) with a Political Activities Caution will be screened, and information will be gathered which will determine if intervention is warranted for the files (i.e. Full Audit, Focused Audit, Reminder Letter).

¹ 16(1)(c) of the 16(1)(c) charities that indicated on its 24(1) T3010 that it carries out political activities was mentioned above: it is currently in Kingston and is being audited for Political Activities.

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THE ATIA
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Pages 003821 to 003835 are duplicates
of pages 000678 to 000692

Pages 003836 to 003847 are duplicates
of pages 000695 to 000706

**HEADQUARTERS
LEGISLATIVE POLICY AND REGULATORY AFFAIRS
BRANCH
CHARITIES DIRECTORATE**

COMPLIANCE DIVISION

CHARITY AUDIT PLAN

2014-2015

March 2014

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OVERVIEW

The charity audit plan for 2014-2015 is comprised of two distinct programs, the “*Field Audit Program*” and the “*Office Audit Program*”. This document provides an overview of the major categories of workload and provides a summary of the number of audits planned for each component of the program.

a) Description of the Programs

The mandate of the Charity Audit Program is to enhance compliance with provisions of the legislation administered by the Canada Revenue Agency (CRA) and to encourage and assist registered charities to comply with the requirements of the legislation through a balanced program of education, service and responsible enforcement. Fundamental to meeting this objective is ensuring that we achieve appropriate levels of coverage through quality audits and verification activities.

Quality audits afford a reasonable degree of comfort as to the level of compliance with consideration given to relative risk, materiality and economy of approach.

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The *Charity Office Audit Program* is centralized at Headquarters (HQ) in the Charities Directorate, Compliance Division. The workload consists of files that, due to the nature and/or complexity of the issues, allow them to be more effectively conducted from HQ.

b) Risk Management

At an Agency level, quality charity audits are necessary to mitigate CRA identified risks such as Reporting Non-Compliance and Aggressive Tax Planning.

There is a risk that taxpayers who file returns will not report honestly and/or accurately, and

21(1)(b)

c) Targeted Population

There are over 86,500 registered charities, and approximately 4,340 other qualified donees¹. The qualified donee audits will be comprised solely of 16(1)(c) for the fiscal year 2014-2015. Our objective is to maintain 1% coverage on a yearly basis, which is consistent with other compliance programs within CRA.

¹ According to our website there are approx. 3667 municipalities, 580 Schedule VIII universities, 88 organizations performing a function of government, and 5 organizations who have received a gift from her Majesty.

944 audits are planned for the 2014-2015 fiscal period, and are allocated as follows:

Charity Field Audit Program (820 audits, 56 FTEs)

Régions and TSOs	Atlantique Halifax	Québec Montréal	Ontario Kingston	Ontario Kitchener	Prairies Edmonton	Pacifique Victoria	Total
Budgeted 2014-2015 based on 60 hrs/files (AU01)	16(1)(c)						624
Qualified Donee audits based on 60 hrs/files (AU01)							140
Budgeted 2014-2015 based on 95 hrs/files (AU02)							36
Political Activity audits based on 340 hrs/files (AU02)							20
Total	85	180	67	202	149	137	820
FTEs	6	12	5	14	10	9	56

Charity Office Audit Program (124 audits, 7 FTEs)

The monitoring component of Office Audit will continue to focus on: monitoring and review of Notice for Incomplete T3010 (RC283's), and a review of inactive charities.

SOURCE OF AUDIT WORKLOAD

The audit plan for 2014-2015 will be comprised of nine (9) categories listed and explained below.

The largest workload is dedicated to what we know or perceive to be high risk files. Included in this category of files are complex donation arrangements including registered and unregistered tax shelters and false receipting schemes; two of the major compliance issues still facing the Directorate at this time. Other areas of concern in this category include

16(1)(c)

A substantial portion of the audit plan will be dedicated to conducting random audits for the purpose of assessing the degree of compliance across the country.

The 2011 federal budget proposed several measures affecting qualified donees. This year's audit plan will include books and records audits of qualified donees that are now subject to new record-keeping requirements.

The 2012 federal budget included several items affecting registered charities. This year's audit plan will include full-scope and focused audits on registered charities that may conduct higher than acceptable amounts of political activities or may be established for political purposes.

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For 2014-2015, the files selected by the Compliance Division for Field and Office Audit will fall within one of the following categories:

#	Sources of Workload	Number Field Audit ²	Number Office Audit	Total audits	%
1	High Risk files	419	12	431	46%
2	Compliance Agreement Reviews	0	60	60	6%
3	Exploratory Audits – No Financial statements	0	20	20	2%
4	Budget 2011- RCAA	0	32	32	3%
5	Core Audit Program - Random	125	0	125	13%
6	Restricted Audit – B&R Reviews	80	0	80	9%
7	Qualified donee Audits	140	0	140	15%
8	Complex AU02 Related Issues - 16(1)(c) -Aggressive Tax Planning	36	0	36	4%
9	Political Activities	20	0	20	2%
	Total	820	124	944	100%

1- High Risk Files

The following types of files have been identified by the Compliance Division as having the highest potential for non-compliance. This determination is largely based on the experience of the audit staff, the knowledge of the particular sectors, and on the results of previous audits. In some cases, these files are handled on a priority basis by both Field and Office Audit.

Files will be selected for audit based on highest risk overall within the following areas:

- internal and external leads related to donation arrangements or false receipting schemes;
- CRA internal / external referrals such as informant leads from the public, media articles;
- data analysis using computerized risk assessment queries.

All informant leads and referrals are reviewed and assessed for risk. Files with highest potential of non-compliance are selected for audit.

The major sources of internal referrals come from within the Charities Directorate such as Determinations and Client Services. External referrals are also received from many other areas of CRA including Enforcement, Aggressive Tax Planning, Tax Services Offices and Tax Centres.

Also, file selection for specific areas of the 2014-2015 audit workload will continue to be done manually by experienced staff at Headquarters. The Compliance Division continues to develop and

² See Appendix A attached for a breakdown of planned files by workload source for each of the TSOs

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to improve the key indicators and “queries” being used in order to data filter the CARE information. The development of new “flags” for the T3010 as well as innovative approaches to data analysis is also underway. These data filtered lists help the Division identify risk and are therefore the first step in identifying some of our workload.

2- Compliance Agreement Reviews

Review of compliance agreements will be a key focus for Office Audit this fiscal period, in part due to the recommendations in the OAG report³. Compliance agreement reviews (formerly undertakings) became a prominent part of our compliance program in late fiscal 2005-2006. In order to evaluate their effectiveness and ensure that charities adhere to the agreements, follow-up audits are conducted.

We allow sufficient time from the completion of the original audit for the charity to file at least one complete T3010. This permits us to determine if the charity is meeting its obligations as set out in the compliance agreement.

We have found that compliance agreements are usually an effective method of addressing non-compliance. In the majority of cases, the registered charities corrected the identified areas of non-compliance.

This year we will complete the review of the compliance agreements prepared during the 16(1)(c) fiscal period to verify the level of compliance. All of the compliance agreements will be reviewed by HQ staff and assessed for risk. Files with the highest potential of continued non-compliance will be selected for audit. Office Audit will conduct the majority of the files selected for a follow-up audit. However, higher risk files or those requiring on site audit work will be referred to Field Audit as necessary.

3- Exploratory Audits

Part of our program will be dedicated to conducting audits in areas that have had minimal coverage. The purpose of conducting the audits is to explore whether there are any compliance issues in those particular areas or types of files.

For 2014-2015, Office Audit will be conducting approximately 20 exploratory audits on charities which have been identified 16(1)(c)

4- Budget 2011 – RCAA

³ Recommendation 7.43 - The Canada Revenue Agency should evaluate the effectiveness of its use of various tools such as sanctions and compliance agreements to increase registered charities’ compliance with the *Income Tax Act*.

According to Budget 2011's legislative changes, the regulatory regime that applies to registered charities was extended to include registered Canadian amateur athletic associations (RCAAs).

The legislative changes included the requirement that RCAAs now have the promotion of amateur athletics in Canada on a nation-wide basis as their exclusive purpose and exclusive function. Also, RCAAs are now subject to the same sanctions as registered charities for breach of its registration requirements; namely a monetary penalty, the suspension of qualified donee status or the revocation of registration.

For 2014-2015, Office Audit will be conducting approximately 32 audits on RCAAs.

5- Core Audit Program - Random

The Core Audit Program (CAP) is designed to evaluate the level of compliance and the effectiveness of CRA's risk assessment system in identifying high-risk files.

The 2010 Report of the Auditor General of Canada recommended that the Canada Revenue Agency should develop and execute a random sampling plan to meet its commitment to report a compliance rate for registered charities (OAG recommendation 7.37).

A random sampling methodology was created and is now being utilized to select files for audit. Charities that have been 16(1)(c) The random audits must be completed before the end of this fiscal period, 2014-2015.

The CAP audits for 2013-2014 were undertaken on registered charities designated as 16(1)(c)

The CAP audits for 2012-2013 were undertaken on registered charities designated as 16(1)(c) The CAP audits for 2011-2012 were undertaken on registered charities 16(1)(c) The level of compliance for each designation has been found to be similar.

As a result, the 125 CAP for 2014-2015 audits will be undertaken on all registered charities, regardless of their designation.

6- Restricted Audits

The purpose of this workload is to conduct books and records reviews that allow us to assess the level of compliance with the legislation through increased coverage and visibility. This is consistent with the Directorate's educative approach to compliance, and fosters a good relationship with the voluntary sector.

A total of 80 reviews will be conducted in 2014-2015, on selected low risk 16(1)(c)

, and a new addition this year, on low risk referrals based on the contents of official donation receipts forwarded from Tax Centres.

7- Qualified Donee Audits

According to Budget 2011's legislative changes, qualified donees have new record keeping requirements. Qualified donees are required to maintain proper books and records and provide access to those books and records to the CRA when requested. Our qualified donee audits will focus on education. However, new provisions in the Income Tax Act allow for more severe compliance action in applicable situations.

A total of 140 reviews of qualified donees will be conducted in 2014-2015. We will continue to focus on qualified donees that are already identified and listed, such as 16(1)(c)

Additionally, we will commence audits on

16(1)(c)

8- Complex AU02 Related issues

This workload is concerned with the more complex, and potentially more serious, compliance issues. These often involve cases of Aggressive Tax Planning. This workload also involves

16(1)(c) as well as examinations of charities

16(1)(c)

A total of 36 audits are planned for 2014-2015.

9- Political Activities

As a result of Budget 2012, additional resources were provided for increased monitoring and compliance activities with respect to the political activities of registered charities. This includes the screening and monitoring of files, followed by various interventions including T3010 reporting errors, reminder letters and full or focused audits.

The files are selected in a similar manner as described above in the "High Risk File" section, through various sources:

- leads /referrals;
- media articles;
- internal transfers;
- related files/ research;
- self-identified organizations through the T3010 source; and
- organizations registered with a political activity caution.

A total of 20 full or focused audits of political activities will be started in 2014-2015. There are currently 30 full or focused audits on-going. The screening, monitoring and reporting of errors/reminder letters will also continue as part of this program.

Appendix A – Breakdown of planned files for each of the TSOs

Source of workload	Atlantique Halifax	Québec Montréal	Ontario Kingston	Ontario Kitchener	Prairies Edmonton	Pacifique Victoria	Total
High Risk files	16(1)(c)						419
Compliance Agreement Reviews							125
Exploratory Audits – No Financial statements							80
Subtotal	64	130	64	151	129	86	624
Qualified donee Audits	16(1)(c)						140
Complex AU02 Related Issues							
- 16(1)(c)							
- Aggressive Tax Planning							36
Political Activities							20
Total	85	180	67	202	149	137	820
%	10.4%	22%	8.2%	24.6%	18.2%	16.7%	100%

003855

Screening files:

Updated: June 23, 2014

1. Ensure that the file has been “assigned” to you in CTS before completing the screening process. For more information, please see the “[Assigning Files](#)” procedures.
2. Ensure that the Organization has filed all T3010s (T3010s are due 6 months after the Organization’s FPE). If the Organization’s T3010 is past due, please see the “[Failure to File at Screening Stage](#)” procedure. Also ensure that you have the most recent T3010 that has been keyed. To verify this information, look in CARE to see which T3010’s have been received and keyed. If it states that the T3010 has been “KEYED” then request the T3010 from Recall.
3. To request files and/or T3010s, please follow the [Recall procedures](#).
4. Screen the file to determine which intervention is required (i.e. no action, full audit, focused audit etc.). Please see the following list of interventions:

Intervention	Reason
Full audit	Both the regular charitable activities and political activities appear to have non-compliance issues.
Focused Political Activities Audit	The regular activities appear charitable but there appears to be non-compliance issues with the political activities
Office Review / Reminder Letters	The regular activities appear charitable and the political activities appear to have minor issues such as not reporting all its political activities or involved in very limited partisan activities. It appears that the Organization spends limited resources on political activities and/or the Organization’s overall resources are very limited.
T3010 Reporting Error	It is apparent that the organization does not engage in political activities, yet answered “yes” on line 2400 and/or placed an amount on line 5030 of their return.
T3010 Keying Error	After review of the Organization’s T3010 (s) and what was keyed in CARE, it is apparent that “yes” was keyed at line 2400 in error or an amount was keyed at line 5030 in error.
Transfer to Regular Audit, or other audit sections	No issues have been identified with the political activities, but potential problems with an organization’s objects and/or activities have been identified.
No action	No issues have been identified with the political activities or its objects/activities.

5. When screening a file, examine the file contents in the permanent folder, T3010s, financial statements, website etc. For more information on what to review when screening files, please refer to “[Screening Files – Tips and things to consider](#)”.

6. Prepare a [Screening Memo](#).
7. Save the Screening Memo to [\Sh34cffp0001\plchar\SPECIFIC\Compliance-Activities Section II\Team - Activities Section II\File Selection and Screening\Screeners' comments\Screening Memos](#), using the proper naming convention.
8. Print the Screening Memo and place it in the “Protected B” section of the file.
9. Update [Activities Section II T3010 Spreadsheet](#) if applicable. This needs to be updated if the file is being screened from the **T3010 workload**. If it is being screened from another workload, please check the spreadsheet to see if the file is included on the spreadsheet. If so, please ensure that the spreadsheet is updated accordingly.
10. Update CTS according to the intervention selected. Please see procedures for each type of intervention listed below.

No Action Required:

In Role 2 in CTS:

- under Work Item Actions, click “Workload” and select the appropriate work item;
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”
- Briefly summarize your screening findings.
- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes.
- Click “Submit.”
- On the Work Item Actions screen (appears automatically), select “Request Closing”
- Under “Response Type,” select “No Audit Required”
- Click “Request Closing.”

In Role 3 in CTS:

- Select “Review” from the side panel
- Click “Review” next to the work item
- Ensure that “Sign Off” has been checked
- Click “Submit”.

After the File has been closed in CTS:

- Cull (organize the file);
- Send file back to Recall as per the [Recall procedures](#).
- Put the file in the green bin near out-going mail in the kitchen.

T3010 error: keying errors

Before requesting closing in CTS, take the file to the Monitoring Section (Tracy Latimer). You can save up a few files and take them as a bunch. Monitoring will correct the error and return the file(s) to you immediately. Once the file(s) have been returned to you, update CTS.

In Role 2 in CTS:

- under Work Item Actions, click “Workload” and select the appropriate work item;
- On the Work Item Actions screen (appears automatically), select “Notes”;
- Next to “Title,” type “Screening Recommendation”;
- Briefly summarize your screening findings;
- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes;
- Click “Submit”;
- On the Work Item Actions screen (appears automatically), select “Request Closing”;
- Under “Response Type,” select “T3010 Reporting Error”
- Under sub-response, select “Keying error”;
- Click “Request Closing”.

In Role 3 in CTS:

- Select “Review” from the side panel
- Click “Review” next to the work item
- Ensure that “Sign Off” has been checked
- Click “Submit”.

After the File has been closed in CTS:

- Cull (organize the file);
- Send the file back to Recall as per the [Recall Procedures](#).
- Put the file in the green bin labelled “Recall” near out-going mail in the kitchen.

T3010 error: Reporting Error - outdated concerns

The Organization made an error on its 2010 T3010, and/or in other T3010s but not in its most recent T3010 and there are no other concerns.

In Role 2 in CTS:

- under Work Item Actions, click “Workload” and select the appropriate work item;
- On the Work Item Actions screen (appears automatically), select “Notes”;
- Next to “Title,” type “Screening Recommendation”;
- Briefly summarize your screening findings;

- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes;
- Click “Submit”;
- On the Work Item Actions screen (appears automatically), select “Request Closing”;
- Under “Response Type,” select “T3010 Reporting Error”;
- Under sub-response, select “Outdated Concern”;
- Click “Submit”.

In Role 3 in CTS:

- Select “Review” from the side panel;
- Click “Review” next to the work item;
- Ensure that “Sign Off” has been checked;
- Click “Submit”.

After the File has been closed in CTS:

- Cull (organize the file);
- Send the file back to Recall as per the [Recall Procedures](#);
- Put the file in the green bin labelled “Recall” near out-going mail in the kitchen.

T3010 error: 2010 error plus error on its most recent T3010

(The Organization made an error in its 2010 T3010 and in its following T3010s up until and including its most recent T3010, which indicates a pattern. Transfer to Monitoring.)

1. Fill out the form [T3010 Reporting Errors](#). Check two boxes (one among paragraph 167-170 and one among paragraph 172-175) if you have at least one T3010 from 2013 or later, otherwise only check a box among the first four (167-170).
2. Transfer the file to Monitoring in Recall. If the pass file function in Recall is not available, please ensure that it is clearly indicated in the CTS “Notes” that the file has been transferred to Monitoring in CTS but not in Recall.

In Role 2 in CTS:

- under Work Item Actions, click “Workload.” Select the appropriate work item.
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”
- Briefly summarize your screening findings.
- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes.
- Click “Submit.”
- On the Work Item Actions screen (appears automatically), select “Request transfer”

- Under Select Unit to Transfer to, select “Comp – Monitoring T3010 PA Error.”
- For transfer reason, select “T3010 Reporting Error - PA”.
- In the comments section, write “Paragraph XX” (whichever paragraph you selected to include from the T3010 Reporting Errors – Transfer to Monitoring form).
- Click “Submit.”

In Role 3 in CTS:

- select “Request Transfer”
- Select “Approve”
- Click “Submit”

After the File has been closed in CTS:

- Cull (organize the file);
- Send the file to Monitoring via internal mail;

Transfer to Regular Audit

(No political activities issues, but other compliance concerns; transfer to Audit 1, Audit 2, Activities 1, or Office Audit)

1. Complete Transfer form

- a. For transfer to Audit 1, Audit 2, Activities 1, Office Audit or Workload Officer Patrick Skinner
- b. Print form and place on top of file.

In Role 2 in CTS:

- under Work Item Actions, click “Workload.” Select the appropriate work item.
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”
- Briefly summarize your screening findings.
- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes.
- Click “Submit.”
- On the Work Item Actions screen (appears automatically), select “Request closing”
- Under Response Type, select “Send to Audit”
- Click “Submit.”

In Role 3 in CTS:

- select “Review”
- Click “Submit”

After the File has been closed in CTS:

- Transfer the file to Ian Rumbold in Recall. Please see the updated Recall procedures.
If the pass file function in Recall is not available, please ensure that it is clearly indicated in the CTS “Notes” that the file has been transferred to Regular Audit in CTS but not in Recall.
- Cull (organize the file);
- Send the file to Regular Audit via internal mail;

Transfer to RAD

(Potential issues related to RAD's mandate, including terrorist financing, money laundering, etc.)

In Role 2 in CTS:

- under Work Item Actions, click “Workload.” Select the appropriate work item.
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”
- Briefly summarize your screening findings.
- On the Work Item Actions screen (appears automatically), select “Request closing”
- Under Response Type, select “Send to non-AIMS”
- Click “Submit.”

After the File has been closed in CTS:

- Transfer the file to RAD in Recall (specific person still needs to be identified).
If the pass file function in Recall is not available, please ensure that it is clearly indicated in the CTS “Notes” that the file has been transferred to RAD in CTS but not in Recall.
- Cull (organize the file);
- Send the file to RAD via internal mail;

Reminder letter

(files screened for “Office review/monitoring”: Regular activities appear charitable, political activities appear to have minor issues or appear to be increasing or changing.)

In Role 2 in CTS:

- under Work Item Actions, click “Workload.” Select the appropriate work item.
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”
- Briefly summarize your screening findings.

- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes.
- Click “Submit.”

In Role 3 in CTS:

- under Work Item Actions, click “Re-assign.”
- Type the file number at the top of the screen; press “Search”
- Check the box next to the work item
- Using the drop-down menu, select “PA - Office review/monitoring”
- Click “Assign.”
- The files for audit are no longer kept in the shipping cabinet. They are now being sent back to Recall once they have been screened. Send file back to Recall as per the [Recall procedures](#).
- Put the file in the green bin labelled “Recall” near out-going mail in the kitchen.

Focused political activities audit

(Regular activities appear charitable, but there appears to be non-compliance issues with the political activities)

1. Complete a [Screeners Comments Form](#) (found on the N: drive). Include detailed, concrete issues for the auditor to review. Also include the following comment on the Screeners Comments form: **“If, during the course of the audit, you determine the issues expand further than political activities, please contact Ian Rumbold to have the audit changed from a Focused Audit to a Full Audit”**.
2. Save the Screeners Comments to <\\sh34cffp0001\group-d\Plchar\SPECIFIC\Compliance-Activities Section II\Team - Activities Section II\File Selection and Screening\Screeners' comments>, using the proper naming convention.
3. Print the Screeners Comments and place it on the file.
4. Print the internet research and place it on the file.
5. Complete an [Individual File Summary](#) and save it to <G:\SPECIFIC\Compliance-Activities Section II\Team - Activities Section II\Audit Files>. This document will be used to help select files for audit, and will also be seen by Senior Management when files are selected for audit. Please ensure this document is as complete as possible.

In Role 2 in CTS:

- under Work Item Actions, click “Workload.” Select the appropriate work item.
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”

- Briefly summarize your screening findings.
- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes.
- Click “Submit.”

In Role 3 in CTS:

- under Work Item Actions, click “Re-assign.”
- Type the file number at the top of the screen; press “Search”
- Check the box next to the work item
- Using the drop-down menu, select “PA – Focused audit”
- Click “Assign.”

After the File has been closed in CTS:

- Cull (organize the file). Make sure that the Screeners Comments as well as all related research is inserted into the “Protected” section of the permanent folder. No papers should be left on the outside of the folder.
- The files for audit are no longer kept in the shipping cabinet. They are now being sent back to Recall once they have been screened. Send file back to Recall as per the [Recall procedures](#).
- Put the file in the green bin labelled “Recall” near out-going mail in the kitchen.

Full audit

(Both the regular charitable activities and political activities appear to have non-compliance issues)

1. Complete a [Screeners Comments Form](#) (found on the N: drive). Include detailed, concrete issues for the auditor to review.
2. Save the Screening Comments to <\\Sh34cffp0001\group-d\Plchar\SPECIFIC\Compliance-Activities Section II\Team - Activities Section II\File Selection and Screening\Screeners' comments>, using the proper naming convention.
3. Print the Screening Comments and place it on the file.
4. Print the internet research and place it on the file.
5. Complete an [Individual File Summary](#) and save it to <G:\SPECIFIC\Compliance-Activities Section II\Team - Activities Section II\Audit Files>. This document will be used to help select files for audit, and will also be seen by Senior Management when files are selected for audit. Please ensure this document is as complete as possible.

In Role 2 in CTS:

- under Work Item Actions, click “Workload.” Select the appropriate work item.
- On the Work Item Actions screen (appears automatically), select “Notes”
- Next to “Title,” type “Screening Recommendation”
- Briefly summarize your screening findings.
- Leave the “Restricted” box checked to ensure only Compliance officers can view your notes.
- Click “Submit.”

In Role 3 in CTS:

- under Work Item Actions, click “Re-assign.”
- Type the file number at the top of the screen; press “Search”
- Check the box next to the work item
- Using the drop-down menu, select “PA – Full audit”
- Click “Assign.”

After the File has been closed in CTS:

- Cull (organize the file). Make sure that the Screeners Comments as well as all related research is inserted into the “Protected” section of the permanent folder. No papers should be left on the outside of the folder.
- The files for audit are no longer kept in the shipping cabinet. They are now being sent back to Recall once they have been screened. Send file back to Recall as per the [Recall procedures](#).
- Put the file in the green bin labelled “Recall” near out-going mail in the kitchen.

Activities Section 2: File Selection Procedures

Last Updated: July 4, 2014

Introduction

All files received in the Activities Section II must be screened by the team. Files can come to our attention from various sources:

1	<u>T3010</u>	Organizations that have self-identified as engaging in political activities (line 2400 or 5030 on their T3010).
2	<u>Leads / Complaints</u>	Leads and complaints received from the public on organizations engaged in political activities.
3	<u>Internal referrals and related files</u>	Referrals from other divisions or related files found through the course of an audit or through screening.
4	<u>Media analysis</u>	Organizations identified through media which do not fall into the lead category.
5	<u>PA Caution Paragraph</u>	Organizations that have a PA Caution Paragraph in their Registration/Re-Registration letters.

The following will describe the selection process for files received from each source.

File Selection

1 - T3010 Source

File Selection Criteria

A master list has been created to identify organizations that have self-identified as carrying on political activities, and can be found on the G drive. Please see [Master List - 2010 T3010 with 5030 and or yes 2400](#).

From this master list, files are chosen for screening based on the following criteria:

- Files must represent all provinces/territories;
- Files should be selected from a wide variety of purposes/activities that they pursue;
- Charities that indicated they spent more than 16(1)(c) on political activities at line 5030 of their most recent T3010 are potential audit candidates. While the 16(1)(c) amount spent on political activities is an appropriate benchmark to use for ordering files to be screened, it may be necessary, or even desirable at times, to order files with amounts less than 16(1)(c) either because of a lack of files to choose from (i.e. smaller provinces), or as a means of comparing the activities of larger charities to those of smaller charities.

The severity of non-compliance regarding an organization's political activities should be kept in mind. This will help determine which intervention will be used (see [Screening Procedures](#).)

TSOs and areas of responsibility

Further to the above, keep in mind that each TSO is responsible for a different geographical area, and therefore it is important to ensure that all TSOs are represented as evenly as possible, with regards to numbers of files chosen for screening. (For example, because Ontario has two TSOs, it is important to order sufficient files from areas served by both the Kingston and Kitchener TSOs.)

- (a). Halifax is responsible for Nova Scotia, New Brunswick, Newfoundland and PEI.
- (b). Montreal is responsible for Quebec.
- (c). Kingston is responsible for Northern and Eastern Ontario, and also includes parts of Toronto.
- (d). Kitchener is responsible for Southern Ontario and parts of Toronto.
- (e). Edmonton is responsible for Alberta, Saskatchewan and Manitoba.
- (f). Victoria is responsible for British Columbia and the Territories.

2 - Leads / Complaints Source

File selection criteria

All leads / complaints will be received from Cheryl Marinelli or Patrick Skinner and will have already been identified as having issues with political activities. The file will be brought to Ian, who will input the file information on our leads / complaints list found on the G: Compliance / Activities Section II /File selection and screening.

The file will then be screened.

16(1)(c)

3 – Internal referrals and related files

File selection criteria

Files can be referred to us from other Compliance sections, divisions or can be identified through an audit of a related file.

If an advisor from our team, Activities Section II, identifies a related file through an ongoing audit, the advisor will order the file from Recall. The advisor will ensure that a CTS case has been created, assign the file to itself in CTS, and proceed to screen the file.

Referrals received from other sections or divisions will be brought to Ian and then screened.

16(1)(c)

4 - Media analysis

File selection criteria

Charities (files) can be referred to in media articles that don't necessarily develop into a lead. In such a case, if a charity is identified through a media article where no lead has been created, the person reading the article will order the relevant file from Recall.

The spreadsheet, [Media Leads for Screening](#), will be updated by the person who ordered the file. Once the file is received, the person will write a note on file and attach it to the file along with the media article.

The file will then be screened.

5 - PA Caution Paragraph

File selection criteria

16(1)(c)