

## **Compliance Framework** **For Files with Identified Political Activities**

### **Introduction**

Budget 2012 provided new resources for increased education and compliance activities by the Charities Directorate in the area of political activities. As the Directorate develops its work plans, it will be important to be mindful of a number of considerations and challenges, including:

- the existing complexities in understanding and applying rules related to political activity;
- the public perception of political involvement in the audit selection process;
- the difficulty of managing high-profile audits; and
- the need to reach a diverse audience (charities, legal representatives, umbrella organizations, the media and the public).

With respect to the increased compliance activities, the Directorate will rely on the existing compliance framework. However, it will be important to manage the work more closely and adapt existing tools as necessary to deal with the inherent complexity and political sensitivity of these reviews and audits.

All Charities Directorate activities will be based on the following principles:

- Charities from across the entire spectrum of charitable activity will be included in review and audit activities.
- File selection process for reviews and audits will be clearly documented.
- Our “educate first” approach will continue to be reflected in our overall approach to political activities, when appropriate.

### **Increased compliance activities**

The Compliance Division of the Charities Directorate has created a new Activities Section to conduct increased screening, monitoring and auditing of organizations who engage in political activities. Sixty audits (including full and focused audits) will be started in the next four years and divided as follows:

- 10 files in year 1 (2012-2013)
- 20 files in year 2 (2013-2014)
- 20 files in year 3 (2014-2015)
- 10 files in year 4 (2015-2016)

## Process

A process has been established in order for file selection to be conducted in a fair, consistent and transparent manner. The following describes the sources from which the organizations will be identified, the criteria that will be used to select files for further action and what possible screening decisions, interventions and outcomes can be expected following screening.

“Screening” is defined as the analysis and research of available information with respect to organizations, leading to a decision regarding the need for further action.

### Screening

#### *a) Sources*

Files with political activities may be identified through a number of different sources.

T3010	Organizations who have reported engaging in political activities (line 2400 and/or 5030 on their T3010).
Leads / referrals	Leads received from the public on organizations engaged in political activities or referrals from other divisions of the Charities Directorate.
Internal transfers <sup>1</sup>	Files transferred from within the Compliance Division (i.e., random audit, office audit, regular audit).
Related files/ research	Related files found through the course of an audit, which have not been previously identified.
Media analysis	Organizations identified through the media which do not fall under the leads category.
Registration letters with a political activities caution	Organizations identified at the time of registration as engaging in political activities, and as a result of which, a political activities caution (CP 24) was included in their registration letter <sup>2</sup> .

#### *b) Screening Criteria*

Over the next four years, all organizations engaged in political activities identified through the sources noted above will be screened. In view of the time remaining in this fiscal period, all files will be screened in 2012-13, with the exception of organizations who have reported conducting political activities on their T3010. For this last category, screening will be limited to organizations meeting the following criteria:

<sup>1</sup> For systems purposes (CTS and AIMS), this source will be identified as “workload”.

<sup>2</sup> A process is being developed for CTS to identify these organizations. Since the process is not yet developed, this source will not be considered during the first year.

### 1. Balance - regional

Organizations will be selected from across Canada.

It is important to note that although regional balance will most likely be achieved in year 1, our research and audit findings might reveal that certain regions of the country are home to more charities conducting political activities. This framework will continue to evolve to reflect those findings.

### 2. Balance – sector segments

Organizations falling under all four heads of charity are allowed to engage in political activities within certain limits. Therefore, organizations will be selected from all four heads of charity: the relief of poverty, the advancement of religion, the advancement of education and certain other purposes that benefit the community in a way the courts have deemed charitable. As a result, the selected organizations will pursue a wide variety of activities/purposes (e.g., anti-poverty groups; churches/religious groups; universities and think tanks; and health, right to life groups, animal welfare, environmental organizations and human rights.)

As with the previous criteria, our research and findings might reveal that organizations engaged in political activities are more likely to fall within certain heads of charity. This framework will continue to evolve to reflect those findings.

### 3. Quantum/Materiality

Charities that have reported spending over \_\_\_\_\_ for political activities (line 5030 of their T3010) will be screened. 16(1)(c) \_\_\_\_\_

*c) Screening decisions*

The screening of files will lead to one of the following possible decisions:

Screening finding	Screening decision	Possible Outcomes
Both the regular charitable activities and political activities appear to have non-compliance issues. <sup>3</sup>	Full audit	Revocation, sanctions, compliance agreement, education letter.
The regular activities appear charitable but there appears to be non-compliance issues with the political activities.	Focused political activities audit	Revocation, sanctions, compliance agreement, education letter. If, during the course of an audit, the issues appear to affect the regular activities/purpose and are not restricted only to the political activities of the charity, the audit will be expanded to a full audit.
The regular activities appear charitable and the political activities appear to have minor issues <sup>4</sup> or appear to be increasing or changing.	Office review/monitoring	Reminder letter, with reference to obtain more information from our web/information sessions as necessary. The organization's name may also be sent to the Outreach Team for further action and/or the file may be monitored for future compliance.
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 reporting error letters	Letter, asking them to contact us to have the error corrected. The letter will also include reference to our web/information sessions as necessary.
No issues have been identified with the political activities, but potential problems with an organization's objects and/or regular activities have been identified.	Transfer to regular audit	Transfer to another section of the Compliance Division.
No issues have been identified with the political activities and objects/activities.	No action	No action

<sup>3</sup> Examples of non-compliance: partisan political activities; political activities exceed 10 %; political activities have become the organization's main purpose

<sup>4</sup> Example of minor issues: political activities are close to 10%; possible lack of linkage to purpose

Screening may lead to more than 60 files referred to audit (full and focused audits). In that event, the following factors will be taken into consideration in order to select the 60 organizations to be audited as part of this initiative:

- Available resources
- Balance – regional
- Balance – sector segments
- Severity of non-compliance
- Materiality (amount)

Any files that have been identified for audit but not assigned will be referred to the Charities Directorate's regular audit program, for possible audit at a future date. The decision to audit at that time will depend on available resources and a risk-based assessment of all non-compliant files.

### **Documentation**

All research completed at the screening stage will be documented and included in the charity's official file, regardless of the screening decision. The reasons for selecting a file for audit/monitoring (including the criteria applied) will be fully and clearly documented. As is the usual practice, all audit/monitoring research, results and outcomes of audits will also be documented on file.

Finally, as mentioned previously, this compliance framework will be an evergreen document. The processes described herein will be adjusted when necessary as the work progresses and our understanding of trends and compliance issues continues to grow.