Compliance within the charitable sector

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How we promote compliance

Trust is critical to a healthy charitable sector. Given that registered charities have significant privileges, such as issuing donation receipts and having tax-exempt status, the Canada Revenue Agency (CRA) and registered charities have a shared responsibility for compliance. For the CRA's part, we monitor the operations of registered charities to make sure they comply with their obligations under the Income Tax Act.

As the majority of charities are compliant and only need guidance at times, we use a risk-based approach to promote and address compliance within the charitable sector. This involves various interventions based on the risk of non-compliance.

Balancing our compliance program in this manner allows us to proactively promote voluntary compliance and to interact with a greater number of charities.

Lower risk non-compliance

This applies to the greatest proportion of charities. When we identify minor non-compliance issues, our interventions include education letters and telephone calls to charities.

Higher risk non-compliance

We reserve audit interventions for cases where there is potential evidence that a charity has engaged in more serious acts of non-compliance. These audits may result in measures ranging from education letters to revocation of charitable registration.

Interventions to support the compliance program

Education letters and telephone calls to charities

We issue different types of letters and conduct telephone calls to remind charities of their obligations or to educate them when we have identified possible areas of non-compliance, outside of an audit. For example, we may send a letter, or make a telephone call, to provide registered charities with guidance on how to correct inaccurate or missing information on their annual return to help them voluntarily comply with the requirements of registration.

Audit program

Audits are a key part of the compliance program. They help us maintain public confidence in the fairness and integrity of the charities registration system. Our risk-based methodology identifies the severity of the non-compliance to be addressed in an audit.

If the findings of an audit raise concerns, we will use one or more of the following compliance measures:

- **Education letters** guide charities through the steps they need to follow to be fully compliant.
- **Compliance agreements** outline areas of non-compliance and commit charities to take corrective action.
- **Sanctions** include financial penalties and temporary suspensions of charities' tax-receipting privileges as well as their status as qualified donees.
- **Revocation** is the loss of charitable registration and the privileges that go with it. It is used in serious cases of non-compliance with the Act.

Other tools

Website

Our pages on operating a registered charity, guidance products, and publications help registered charities follow the rules. For the latest information, go to News and events for charities or sign up for our electronic mailing list.

Outreach program

We produce educational videos, webinars, and other communication products. We also engage with the sector in a variety of ways (including social media and working groups) in order to help registered charities and other qualified donees voluntarily comply with the obligations of registration.

Client service

Our client service representatives are available to answer your questions over the telephone or in writing. Our representatives are here to help you Monday through Friday, 8 am to 5 pm, Eastern time.

The audit process for charities

For a summary of our audit process: Audit process for charities - infographic.

As part of its ongoing efforts to make sure charities meet the requirements of registration, the CRA connects with as many charities as possible each year through a variety of compliance activities in its coverage of the charitable sector.

Using a risk-based approach, the CRA (Canada Revenue Agency) helps charities respect their obligations by providing early education and outreach to address minor types of non-compliance. The CRA (Canada Revenue Agency) focuses its audit resources on situations where we determine a charity may be engaging in more serious acts of non-compliance.

Audits can result in different compliance measures ranging from education letters to revocation of charitable registration.

Reasons why a charity could be selected for audit

Charities are selected for audit based on their risk of non-compliance. The CRA uses the following information to assess risk:

- self-reported information on a charity's annual T3010 information return
- history of non-compliance identified in previous audits

Information about a charity's potential non-compliance (such as from public sources or complaints) may also be considered alongside other available information when assessing risk and determining whether an audit is warranted. Multiple submissions about the same issue do not increase the likelihood of an audit; the CRA considers whether information it receives is relevant and describes a potential non-compliance issue.

How the CRA (Canada Revenue Agency) audits a charity

There are two main types of field audits: the audit and the restricted audit. The size and complexity of a charity, as well as the issues involved, will often decide the type of audit required.

- An **audit** is done on the charity's premises and usually lasts between three and five days. Auditors will review the charity's books and records such as bank accounts, contracts, governing documents, annual reports, board minutes, and other documents that relate to its activities. The auditors will interview the charity's directors and ask questions about the charity's activities. They may also want to tour the premises to better understand the transactions recorded in the books and to see the charity's programs and activities in action.
- A **restricted audit** (previously referred to as an office audit) is generally a limited scope audit restricted to a review of specific risk issues. Auditors will review the information and documents in the charity's file with the CRA (Canada Revenue Agency). This may include its most recent governing documents, descriptions of its programs and activities, its annual information returns and financial statements, and compliance agreements. With a restricted audit, it is often necessary to contact the charity to get more information about its activities and it may require an onsite visit to the charity.

After the audit is finished

When the CRA (Canada Revenue Agency) has completed its review of the charity's operations, it will send the charity a letter outlining the audit findings.

If the charity's operations and all its activities are in line with the Act, the CRA (Canada Revenue Agency) will confirm in writing that there will be **no change** to the charity's registered status.

When the audit uncovers that the charity is not operating in accordance with the Act, the CRA (Canada Revenue Agency) will send the charity an Administrative Fairness Letter (AFL) that:

- outlines in detail each of the CRA (Canada Revenue Agency)'s concerns
- gives its **preliminary view** of whether the charity needs to take corrective actions or whether the non-compliance warrants imposing sanctions or revoking or annulling the charity's registration
- gives the charity the chance to make representations **before the CRA (Canada Revenue Agency) comes to a final decision**

Generally, the CRA (Canada Revenue Agency) gives a charity 30 days to reply to all the concerns listed in the AFL (Administrative fairness letter), although the charity can request an extension.

Types of letters a charity may receive after it has been audited

Where possible, the CRA (Canada Revenue Agency) will give the charity the chance to correct its non-compliance through education or a compliance agreement before it resorts to other measures such as sanctions or

revocation. Only a very small proportion of the CRA (Canada Revenue Agency)'s audits result in serious consequences like sanctions or revocation.

Based on the charity's response to the AFL (Administrative fairness letter), the findings of the charity's audit will determine the compliance approaches the CRA (Canada Revenue Agency) will take:

- **Education letters:** When the non-compliance is minor, the CRA (Canada Revenue Agency) will send an education letter. The letter will identify where the charity has not followed the law and will offer guidance to the charity so that it can make the required changes. An education letter does not adversely affect the charity's registration, and the charity does not have to reply to the letter. The CRA (Canada Revenue Agency) may follow up to ensure the charity has applied the required changes.
- **Compliance agreements:** In cases of moderate non-compliance, the Charities Directorate may suggest entering into a compliance agreement with the charity. A compliance agreement outlines the non-compliance issues and the remedial actions that the charity has agreed to take. It also sets out the timelines for the charity to implement the necessary changes, and outlines the consequences if the charity does not follow the agreement. The CRA (Canada Revenue Agency) will follow up to make sure the charity is acting according to the agreement.
- **Sanctions:** In cases of serious or repeat non-compliance, the CRA (Canada Revenue Agency) may propose a sanction (financial penalties or the temporary suspension of the charity's tax receipting privileges or both). The CRA (Canada Revenue Agency) may also propose a sanction when the charity has been found to be disregarding the terms of its compliance agreement.

- **Revocation of registration:** When the CRA (Canada Revenue Agency) finds a **serious case of non-compliance**, it will propose revoking the charity's registered status. Although the CRA (Canada Revenue Agency) usually uses revocation as a last resort, under the Act the CRA (Canada Revenue Agency) can revoke a charity's registration at any time, when it is appropriate. This includes situations where:
  - the non-compliance is serious and intentional
  - the non-compliance has had a substantial, adverse effect on others (beneficiaries, donors, or funders)
  - the charity had a previous record of serious non-compliance or cannot or will not follow the rules

A charity whose registration is revoked must dispose of its assets within one year to other registered charities in good standing or pay a 100% revocation tax on any assets remaining. This tax helps make sure the funds donated for charitable purposes stay in the charitable sector.

- Annulment of registration: In rare cases, an audit may find that a charity was not established and operated exclusively for charitable purposes when it was registered, or a change of law has caused it to no longer qualify as a charity. Although the CRA (Canada Revenue Agency) is obligated to remove the charity's registration because it should never have been registered or no longer qualifies as a charity, it may be unfair to penalize it by applying the revocation tax to any assets it has accumulated. In such cases, the Act allows the CRA (Canada Revenue Agency) to propose to annul the charity's registration. A charity whose registration is annulled can no longer issue tax receipts, but it can keep its assets.

For information on how the CRA (Canada Revenue Agency) makes its decision on which approach to take, see Procedures in Guidelines for applying sanctions.

Recourse for a charity during and after an audit

As mentioned above, the charity is given the chance to make representations to the CRA (Canada Revenue Agency) by responding to the AFL (Administrative fairness letter). In its response, the charity may explain why it disagrees with the CRA (Canada Revenue Agency)'s position, provide more information, or propose changes to satisfy all of the concerns raised in the AFL (Administrative fairness letter).

The CRA (Canada Revenue Agency) will fully consider the charity's representations and make a determination on the appropriate compliance outcome. If, after considering the charity's representations, the CRA (Canada Revenue Agency) finds it is reasonable to impose a sanction, annul, or revoke the charity's registration, it will send the charity a letter outlining its decision.

When a charity receives one of these letters and believes the CRA (Canada Revenue Agency) has made a mistake in applying the facts or the law correctly, it can file an objection.

The Appeals Branch undertakes formal and impartial reviews of decisions made by other areas of the CRA. The Appeals Branch will review the objection and all relevant information before making a final decision.

For more information on the objection process, go to Objections and appeals: Registered charities and other qualified donees.

Comments on the audit process

If we have recently audited your charity, we would like to hear from you.

- Do you feel we properly informed you about the audit process?
- Did you find the process helpful in understanding your obligations as a registered charity under the Act?

- Is there anything that may have made the process easier to understand?

Send your comments to:

Director, Charities Audit Division
Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

Compliance statistics

Audit information available to the public

All information related to CRA (Canada Revenue Agency) audits are confidential to the public. However, there are some exceptions in the Income Tax Act to the general rules around taxpayer confidentiality, such as publishing details about non-compliance related to sanctions, and revocations as a result of an audit.

When the CRA (Canada Revenue Agency) revokes or annuls a charity's registration or when it imposes a sanction, it posts this information in the List of charities and certain other qualified donees.

Make a request for additional details on the grounds for revocation

Anyone can request a copy of the Notice of Intention to Revoke Registration for a revoked charity from the Charities Directorate at no cost. This document outlines the reasons for the revocation, providing

transparency and helping the public understand the CRA's decision. For more information, go to Request for registered charity information.

Interventions

Each year, we conduct a variety of audit and non-audit interventions. The table below reflects the number of contacts we have made as part of our compliance program.

Statistics on education and non-audit interventions compared by year

Non-audit intervention	2023-2024	2024-2025	2025-2026
Education letters	4,425	5,373	4,623
Education telephone calls	1,931	1,200	468
Charities Education Program visits	200	22	0
Total	**6,556**	**6,595**	**5,091**

Outcome of all Charities Directorate audits

The outcomes of audits depend on the severity of a charity's non-compliance. Below, you can see the actions the CRA (Canada Revenue Agency) has taken after an audit was completed.

Statistics on audit results compared by year

Outcomes	2023-2024	2024-2025	2025-2026
No change /no further action	3	2	7

Outcomes	2023-2024	2024-2025	2025-2026
Education letters issued	107	125	81
Compliance agreements	44	51	66
Voluntary revocations	9	13	20
Penalties/suspensions	3	4	2
Notices of Intention to Revoke issued [1]	8	21	48
Annulments	6	0	0
Other (includes other audit activities such as pre-registration and Part V audits)	15	4	3
Total	**195**	**220**	**227**
Revocations as a result of an audit [2]	9	26	52

Please note that these numbers are subject to change as statistical data is updated by our program areas.

Footnotes

1 These figures include situations where the audit is finished and the CRA (Canada Revenue Agency) has proposed to revoke the charity's registration, but may not yet have done so because there is a pending objection or appeal.

2 These figures sit outside the fiscal year totals as they may relate to audits where a Notice of intention to revoke was issued in a previous fiscal year, and for which the charity has already exercised its right to file an objection and/or appeal to the CRA (Canada Revenue Agency)'s decision to revoke its registration.

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