

**Maintaining Adequate Books and Records**  
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*Note: While this article will be useful to all not-for-profits, the specific CRA requirements referred to throughout, relate specifically to registered charities.*

One of the most fundamental financial practices for any organization is keeping books and records. It is vitally important for protecting the organization's assets, and for managing and reporting on its financial activities. Without adequate books and records, most organizations would be unable to survive for long. But, what do adequate books and records look like? And, what specific requirements are there for the organization's books and records?

There are - perhaps unfortunately - very few specific requirements regarding the books and records that organizations must keep. The primary source of requirements is the Canada Revenue Agency (CRA) and, for registered charities in particular, familiarity with the CRA's requirements is an important step in ensuring the adequacy of the organization's efforts in this area. Even here, however, the requirements are short on detail when it comes to what specific records should be kept, and in what format.

### **Governance Records**

While the primary focus of this article is on financial records, and specifically accounting records, another category of records should not be overlooked: those relating to the organization's governance. Without going into a lot of detail, it is worth noting that governance records fall into three basic categories:

- **Creation** -- These are records that document the creation of your organization, such as Letters Patent, Articles of Incorporation, or a constitution or trust document. These records will typically be provided (or held) by your lawyer who helped set up the organization. These documents should be permanently retained, in a safe place. Photocopies should be kept in a convenient location for ease of reference.
- **Registration** -- Registration documents relate to the organization's registration with various government or regulatory agencies, such as business licenses and CRA registrations. These should be kept just like your creation documents.
- **Operation** -- The primary governance record of the operation of your organization is minutes of meetings of its members, its board of directors (or similar governing body), and any committees established by the board. Having good, reasonably detailed minutes that document the discussions that took place and the decisions made at these governing meetings is key to being able to support actions taken and demonstrate the proper functioning of the organization's governance. Minutes should be prepared on a timely basis, and be signed by the chair and/or secretary of the group that met to confirm their accuracy and authenticity. Other key governance documents include annual and interim reports, various government/regulatory filings made on behalf of the organization, and the various policies and procedures that are in place to facilitate the smooth functioning of the organization.

## Financial/Accounting Records

CRA requirements for an organization's accounting records are not detailed. Rather, CRA simply requires (in the case of registered charities) that the records allow it to verify:

- revenues, including all donations received;
- that resources are spent on charitable programs; and
- that the charity's purposes and activities continue to be charitable.

In addition, the organization's records must be supported by source documents -- that is, the original documentation of the individual transactions that comprise the information in the records. These source documents would include, for example, donation receipts, supplier invoices, paid cheques paying the invoices, payroll & time sheets, expense chits, and so on.

So, with this lack of specific guidance, how to organize one's accounting records? It is essential that the organization follow established bookkeeping and accounting practices, in order that anyone, including the organization's own bookkeepers (whether staff or volunteer) from time to time, and CRA can follow what is being done.

Even an overview of basic good bookkeeping practices is beyond the scope of this article. But a few key elements of a basic bookkeeping system will illustrate what needs to be considered:

1. **Source documents** -- as noted above, these original records of individual transactions are the starting point for record-keeping. From these original documents, details of the transaction, such as date, amount, purpose, name and address of the other party, and so on, need to be legible on the source documents.
2. **Books of original entry** -- these books, which would commonly be organized as a cash receipts journal, cash disbursements journal, etc., record the transaction details from the source documents. These books are typically organized by date, and assign the amount of each transaction to the relevant account or accounts in the accounting system.
3. **General Ledger** -- this "central" book of the accounting system is where summarized information from each of the books of original entry is recorded, typically on a monthly basis. The general ledger has a page for each account in the system, showing all of the activity that impacts that account.
4. **Reports** -- financial statements, regulatory reports, and other information is drawn from the general ledger and is typically further summarized, depending on who is to use the report. Generally, reports for management will be the most detailed, less detail for the board, and finally reports to members and others 'outside' the organization will have the least detail.
5. **Bank Statements** -- in addition to the above, a key element of any bookkeeping system will be bank statements for the organization's bank account(s). Since it is good practice for virtually all cash receipts and cash disbursements to be made into/from the bank account (using deposit slips for cash receipts; cheques, not cash, for cash disbursements), the bank statements will show virtually all the organization's transactions from the bank's perspective.

6. **Bank Reconciliation** -- this final element of every sound bookkeeping system is a reconciliation, or comparison, of the information in the bank statements to that in the organization's own records. Doing a bank reconciliation at least monthly is an essential element of control over the organization's finances, and management or the board should insist, without exception, that this important step be completed every month.

There are two other specific CRA requirements that organizations (charities in particular) should be aware of. These include:

- **Language** -- CRA requires that records be maintained in either English or French, in order that they can be read by CRA staff.
- **Location** -- CRA requires that records be physically located in Canada, at the location of the organization that CRA has on file. It is not adequate simply to have copies of records available in Canada, they must be the original records (a particularly important point if your organization has foreign operations). Also, if you are using a computer to maintain records, it is not adequate simply for records to be accessible electronically in Canada; again, the original computerized records must physically reside in Canada.

### **Retaining Records**

Accounting records, including source documents, can take up a lot of storage space, so it is common for organizations to question just how long these records need to be retained. CRA has specific requirements for registered charities in this area, summarized in the table following this article.

In addition, CRA may require that you retain records for a longer period of time (presumably in contemplation of an upcoming review or audit). In this case, CRA will advise you of its requirements. Records should also be retained for the duration of any ongoing audit, assessment or reassessment, or other investigation and until after the time for filing any appeal or objection has passed.

### **Computerized Accounting System Issues**

Even the smallest organization can now afford to use computerized accounting systems. But, there are some issues that come along with using computerized systems that may not be obvious. Among them are:

- CRA requirements include maintaining computerized records in "electronically readable" format; that is, in a format that CRA can access using their own standard computer equipment. Even if the charity maintains paper printouts of all the information, this means keeping not only the data in electronic format, but also any computer program or software application required to access the data. With the pace of change in computer technology, it may not be a trivial matter to ensure that records will continue to be available in this format for years to come (think about: hardware, application and operating system version upgrades, system conversions, media reliability, etc.).

- Some organizations will scan original documents into a digital image format in order to save space, facilitate backup and ensure readability. Doing so, and destroying the underlying paper documents, is acceptable to CRA, so long as the scanned images show all significant details (front and back) of the originals.
- Computerized accounting systems must include sufficient detail to facilitate tracing records back to source documents. While this 'audit trail' is an essential feature of any accounting system, it bears particular attention in computerized systems, which all too often have been designed by technology wizards, not accounting wizards! If, for example, source documents are filed by date, then the date must be recorded in the system; if filed by serial number, then that number be recorded, and so on.

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The risks of having inadequate records for your organization are pervasive. In addition to finding yourself in serious trouble with CRA, you may lose the ability to protect your organization's assets, and even effectively manage your organization. It is not an exaggeration to suggest that your organization's survival in the long run depends on maintaining at least a minimally adequate set of governance and accounting records.

For further information on these requirements, and on the basics of setting up a rudimentary accounting system, stay tuned for Imagine Canada's new Charity Tax Tools online resource. This comprehensive and user-friendly website, developed by Imagine Canada with the CRA's financial support, specifically for small to mid-sized charities, will be launching shortly!

Note: This post is provided as information only. Readers are cautioned not to act on information provided without seeking specific legal advice with respect to their unique circumstances.

**CRA Records Retention Requirements  
for Registered Charities**

<b>Type of record</b>	<b>How long they must be kept</b>
Copies of tax receipts	Two years after the end of the year in which the donation was made (except for 10-year gifts; see below)
Financial records	Six years after the end of the most recent year to which they relate (or two years after registration is revoked)
Incorporating documents	For as long as the charity is registered plus two years after the charity is dissolved or wound up or registration is revoked
Minutes of meetings of board of directors and of members	For as long as the charity is registered plus two years after the charity is dissolved or wound up or registration is revoked
Records concerning endowments and other 10-year gifts	For as long as the charity is registered plus two years after the charity is dissolved or wound up or registration is revoked