

South Pacific Division

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Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
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**SUBMISSION TO THE:
INQUIRY INTO THE DISCLOSURE REGIMES FOR CHARITIES
AND NOT-FOR-PROFIT ORGANISATIONS.**

The South Pacific Division of the Seventh-day Adventist Church is the regional coordinating office for the Church. Its territory includes Australia, New Zealand, Papua New Guinea and other South Pacific countries as far east as French Polynesia. Within this geographic area are various constituent bodies of different legal and administrative status.

The activities of the Church in Australia and this region include the ecclesiastical functions of the Church; K-12 schools; tertiary education; Aboriginal education facilities and health programs; aged care; the promotion of health and wellness through the activities of Church's hospitals and Sanitarium Health Foods; printing and publishing; Christian book shops; national and international welfare, development and aid agencies.

Our organisation made a full written submission to the 2001 Charities Inquiry. I was invited to meet with the Inquiry on several occasions and appreciated the opportunity to do that.

Based on the published information the Inquiry this submission will focus on only three areas submissions are being sought for.

Summary

In summary our response is:

1. Australian Accounting Standards do not adequately meet the needs of the not-for-profit sector for disclosure purposes
2. Australian not-for-profit organisations have "many masters" with often complex reporting and regulatory requirements.
3. Compliance is an escalating resource burden to the sector
4. There is the opportunity for simplification and establishing minimum standards of governance for unincorporated organisations.
5. A cautious approach on the appropriateness of a Charities Commission.

(a) the relevance and appropriateness of current disclosure regimes for charities and all other not-for-profit organisations;

Our organisations are community-based and it is highly relevant that accurate information be supplied to both decision makers and key stakeholders for accountability and ensuring that the purposes for which the organisation exists are being fulfilled.

A significant issue for our organisations are the current accounting standards. The accounting industry has acknowledged that the standards do not adequately serve the not-for-profit sector. We concur with that view and often find that financial statements prepared under the new standards can confuse users rather than bring about an understanding of the financial position of the organisation and its activities. In an attempt to make the statements as relevant as possible most organisations have opted to prepare statements as *special purpose reports* rather than *general purpose*. The use of *special purpose reports* limits who is able to use them and for what purposes. This approach has the potential for inconsistencies in reporting and disclosure between organisations.

Incorporated organisations, including those with ITEC status, are required by law to regularly disclose information to their directors and members/ shareholders. The required disclosures are the same as for a for-profit organisation. We regard the required current disclosures as adequate.

I am not aware of any legal requirement for an unincorporated organisation to disclose information to its stakeholders. However our denominational policies mandate regular disclosure to constituents of all entities including unincorporated organisations.

In addition to reporting to boards and constituents, disclosures are made to funding organisations such as the Government in a mandated format. Most of those organisations have the right to inspect or audit the affairs of that organisation as a condition of receiving money. This is relevant but can increase compliance costs to an organisation by preparing the same information in different formats.

(b) models of regulation and legal forms that would improve governance and management of charities and not-for-profit organisations and cater for emerging social enterprises;

Reports periodically arise in the media about the lack of regulation for charities. It is our organisation's experience those media reports are inaccurate and lack understanding of how regulated charities are in Australia and the current legal environment that exists.

In Australia our organisation is regulated by:

- The Federal Government:
 - Australian Tax Office
 - Australian Securities and Investments Commission
 - Numerous Government departments that oversee specific areas of operations such as Education , Health, Employment, AusAid etc
- State Governments
 - Employment laws
 - State Revenue Offices
 - Numerous Government departments such as Education, Health, Fair trading etc.
- Local Government
 - Food and hygiene standards
 - Building and traffic regulations
 - Public fund raising activities
- The legislative environment that includes laws on marriage, child protection, employment, tax, insurance, financial services, environment, land ownership, privacy, food preparation, OHS to name just a few.
- The standards of operation mandated by Professional Bodies for employees ie:
 - Accountants
 - Auditors
 - Medical doctors and Surgeons
 - Teachers

The trend in Australia has been for greater compliance and reporting by charities. This increased administrative costs and added pressure on staff that operate in an environment of limited resources for overhead expenses.

Our denomination in Australia has entities that range in size that are large relative to other charitable organisations to very small organisations. A strength of Australian society is the way that individuals and groups have been encouraged to care for their own community needs rather than a total dependency on government. Unfortunately increased regulation is making it increasingly difficult for smaller organisations to exist. Imposing greater regulation can have the undesirable effect of losing the important contribution from volunteers and require greater numbers of paid employees.

Rather than increasing regulation any further a more positive approach would be to establish minimum standards of governance for not-for-profit organisations. These standards can be made a condition of being granted and maintaining charitable status.

(c) other measures that can be taken by government and the not-for-profit sector to assist the sector to improve governance, standards, accountability and transparency in its use of public and government funds.

A Charities Commission has been considered in the past for Australia. Complying with a Charities Commission reporting requirements in addition to the other reporting required has the potential to increase an organisations overhead burden and cost. The negative affect would be most significant for smaller organisations and those with limited resources and high fixed costs.

I have recently had experience with the newly established New Zealand Charities Commission. An important feature of the New Zealand Charities Commission is that registration is voluntary.

The incentive to register with the New Zealand Charities Commission is to access the financial benefits of being a registered charity such as tax rebates for all donations. At the same time as the Charities Commission commenced the Government made all donations to charities registered with the Commission tax rebateable. This has become a huge incentive for charities to register.

While the Charities Commission in New Zealand is in its infancy our experience so far has not raised issues that cannot be resolved. The progressive initiative of donations being fully tax rebateable has created a positive environment for Charities. Our organisations in New Zealand are focusing on the positive benefits of registration rather than the increased cost of compliance for no benefit.

If a Charities Commission is contemplated for Australia the experience of New Zealand should be considered.

The not-for-profit sector by nature is labour intensive and makes a valuable contribution to Australian society. The 2001 Charities Inquiry like many Inquiries before it confirmed that. The trend for the sector has been one of increasing compliance costs. Any changes contemplated should be done not to increase complexity, compliance and costs, but done to make charities more efficient, cost effective and easier to operate to fulfil their purpose and contribution to society.

This submission has been authorised by the senior administrators of the South Pacific Division of the Seventh-day Adventist Church.

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