

## **THE UNITING CHURCH IN AUSTRALIA NATIONAL ASSEMBLY**

**SUBMISSION DATED 13<sup>th</sup> February 2013.**

The Manager,  
Philanthropy and Exemptions Unit,  
Indirect, Philanthropy and Resource Tax Division,  
The Treasury,  
Langton Crescent,  
PARKES. ACT. 2600.  
AUSTRALIA

### **AUSTRALIAN CHARITIES AND NOT-FOR-PROFITS COMMISSION FINANCIAL REPORTING REQUIREMENTS**

#### **Consultation Paper December 2012**

Dear Manager,

This submission represents the views of the Uniting Church in Australia in all its diversity of activities, locally and internationally, other than our community services operations under the banner of UnitingCare who will be making a separate submission for their area of activities. Both UnitingCare Australia and the Uniting Church have worked collaboratively under the coordinating leadership of Joe Zabar, Nina McKenzie and Jim Mein AM and they are available to make a presentation if so required.

As a national Australian Church and one of the largest religious institutions, aged care and other community services providers and educational bodies, we have regularly provided government assistance advice and assistance and are happy to meet with our counterparts and the Treasury counterparts.

#### **BACKGROUND TO THE UNITING CHURCH IN AUSTRALIA**

The Church is an unincorporated body created by consistent State and Territory property trust legislation. That legislation was enacted on 22<sup>nd</sup> June 1977.

The Church is the result of the of many years of discussion to 22<sup>nd</sup> June 1977 of the Methodist Church in Australia and the majority of both the Presbyterian and Congregational Union Churches in Australia.

Enabling State and Territory Legislation created a statutory corporation in each of their geography but the “State” jurisdictions for the Church do not exactly follow those geographies. Additionally, the Church is a federated body but the main operational responsibilities are through the synods and their presbyteries. Most of the latter are limited to each presbytery’s regional geography but there are some exceptions, being mainly because of indigenous and ethnic presbyteries. As well, each

statutory corporation primarily has a nominee role and not one that is a trading or operational activity.

The Church is primarily an unincorporated association of religious individuals who are able to exercise a wide variety of ministries through the authority of national Regulations and synod by-laws. There are nonetheless many different structures including unincorporated entities such as the synods, national Assembly, church constituted unincorporated bodies and congregations, companies limited by guarantee, incorporated associations, letters patent, public ancillary funds and trusts. This structural diversity covering well over 3,000 entities across Australia is expected to be greatly impacted by the recently passed legislation for Charities and Not-for-Profit entities which primarily appears to be built on companies limited by guarantee and incorporated associations. However we do appreciate the creation of the “basic religious charity” classification which is exempt from the governance standard disclosures and lodgement of annual financial reports.

It is extremely important to understand the diversity of the sector in its range of activities, entity structures, governance processes and accountabilities. In other words, one set of rules and requirements does not automatically work for all. Our mixture of unincorporated entities, companies limited by guarantee, incorporated associations, letters patent, trusts and public ancillary funds is not common to most charities and not-for-profit organisations, other than many religious institutions.

## **OVERALL OBSERVATIONS ON THE CONSULTATION PAPER**

The Church readily acknowledges the wide variety of resources it has available to it and also unavailable because of the diversity of organisational sizes. Our various UnitingCare and other large community services organisations, our synods and treasury operations, and our schools, each have employed professionals and utilise appropriate accounting systems to comply with the national chart of accounts as the foundation of the annual financial reports. However, many of our smaller, local community activities are resourced by volunteers who do not have the large entity leadership and governance skills nor the professional staff to prepare annual financial statements to the level required by accounting standards. As well, access to local auditors for large entity audits, medium entity reviews and where their constitutions require audits, irrespective of financial size, is geographically difficult to impossible, for those outside urban and rural cities.

Whilst many parts of the “Exposure Draft – Explanatory Material” document are understandable, even acceptable, the following are of concern to the Church:

1. The Church has not been consulted on the reporting requirements of the actual proposed annual financial reports. We had very fruitful discussions on the plight of congregations in particular and very much appreciate the creation of the “basic religious charity” with its exemptions from lodging governance standards and financial reports. However we need to be reassured that the ACNC’s annual statement requirement will not require these exempted

charities from providing any financial information, albeit in summary form rather than as financial reports.

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2. Whilst the National Chart of Accounts model is laudable and well understood for large and medium tier entities with employed accountants, many of the unincorporated charities do not have ready access to affordable expertise or even volunteers with those skills, let alone the computer systems to facilitate such a challenge and objective, that disclosure becomes a requirement. A similar difficulty will be the requirement to value the time of volunteers for inclusion in the annual financial reports. This will be tantamount to additional, cost, red tape and of questionable value to the public, if it is ever required.
3. The issue of specific purpose accounts and general purpose accounts has been an issue for a long time. It would be extremely helpful if greater information, clarification and definition could be provided by the ACNC. Included in the issues are two key questions:
  - a. Does availability of financial reports on the ACNC portals /website automatically make them general purpose? If it does, many charities will incur additional costs with questionable value.
  - b. Whether the negotiations with federal government and departments, and later with state and territory governments and departments, agree that once a charity reaches a certain level of annual financial funding, that general purposes are required?Neither the accounting standards nor the Exposure Draft provide clear, unambiguous answers and consultation is needed.
4. As raised in many discussions before, the Church is concerned at how to enable the donating public to understand the financial report which is probably the most significant lodged document with the ACNC. A key perspective for a donor is to see that their donation achieves what they desired with their donation. A reported profit or surplus would easily be seen as the failure to utilise donations for the given purpose. However each charity must build up financial security and operational ability to fulfil its objects such that there is a perceived clash between the term “not for profit” and the need to make a profit in order to repay loan principals, acquire infrastructure assets and built up working capital, particularly to be solvent. Additionally, there is the complexity of government funding automatically being treated as income even though it enables the creation of an infrastructure asset, yet not treating the asset cost as revenue expenditure. The result is an inflated profit unless there is an understandable simple statement that shows where the profit is or has been used for the good of the charity and its beneficiaries.
5. Clarity is needed to understand when group accounts are required rather than as an option or choice. Certainly there is no way that the Church could comply with being required to be a whole group and we accept the verbal advice that we will not group all congregations for example

Each of these issues is a major concern for the Church.

**CONCLUSION:**

The Church strongly desires to work with the ACNC but is concerned that it has not been part of any consultative process with either of the Commission or the Australian Accounting Standards Board.

We also need to be assured that there will be reduced red tape with all the Federal, State and Territory governments. Indeed, the Regulatory Impact Assessment document released recently by the Council of Australian Governments does not give confidence that red tape will be reduced. In our view, the COAG RIA identifies a number of areas of duplication between the ACNC and the State Regulators regulating the NFP Sector, yet less duplications between the Commonwealth and State Regulators. However the RIA does highlight the number of additional compliance obligations that the Sector will face as a result of the introduction of the ACNC both the proposed governance and reporting requirements. Whilst we acknowledge that the Commonwealth Government is committed to reducing red-tape through improvements to the Commonwealth Grants Guidelines and by introducing the “Charities Passport”, neither has been introduced such that we see increased financial reporting and regulatory obligations on the Sector.

Accordingly, we believe it is critical that priority be given to addressing the findings of the COAG RIA to minimise the additional compliance costs of this whole transition phase between where the Commonwealth is now and what ought to be happening , namely a national regulator without duplications.

Yours faithfully,

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