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Freedom of Religion and Eternal Accountability: Internal Auditing and its Implications within the Seventh-Day Adventist Church

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Freedom of Religion and Eternal Accountability: Internal Auditing and its Implications within the Seventh-Day Adventist Church

Abstract

Based on archival resources, this study examines how accountability and internal auditing practices emerged and evolved within the distinctive setting of the Seventh-Day Adventist Church. Traditionally, this organisation was reluctant to account to its constituents in conventional financial terms. The Church administration prioritised notions of *righteous accountability*, while the general members of the church were concerned primarily with their own *eternal accountability*. That is, and reflecting its religious character, an emphasis on accountability relationships at a higher plane permeated the organisation: the Church with carrying out the mission it believed it had been entrusted with, and individual members with their own religious salvation. However, reservations over a perceived lack of monetary stewardship subsequently came to the fore. This precipitated an increased emphasis on financial accountability, with the adoption of an internal auditing function identified as a key outcome of this change.

Keywords: Internal audit, accountability, external audit, church organizations, eternal accountability

1. Introduction

Freedom of religion is considered by many people and nations to be a fundamental human right. Indeed, the liberties associated with this cornerstone of society and which underpin the activities of religious organisations have often been presumed to relieve such entities of the need for formal, broad and detailed systems of accountability. “Giving to God” has seldom required justification, with faithful followers more concerned about their own *eternal accountability* – that is, to God in a quest for eternal life – rather than the financial accountability of the religious organisation they belong to. Further occluding conventional financial accountabilities within religious setting has been the priority traditionally given to *righteous accountability*. That is, churches have traditionally had primary recourse to the perceived mission of God in explaining and defending their

activities, rather than efficacy in the acquisition and use of financial and physical resources.

However, the once common presumption that not-for-profit entities – such as religious institutions and charities – could simply be relied upon to “do the right thing” in the absence of formal reporting and accountability evaluations is now being challenged (for example, Gray *et. al.*, 2006; Unerman & O’Dwyer, 2006; Everett & Friesen, 2010; Smith, 2011; Dellaportas *et.al.*, 2012). The religious sector, in particular, has been subject to criticism, with commentators now boldly referring to the sector as an environment of “bad governance and little accountability” (Gettler, 2007: 5; also see Ferguson, 2006). According to Ferguson (2006), if religion were a business it would be one of the fastest growing businesses in the world, controlling significant social, financial and political resources.

The followers (the equivalent of a client base) of particular religious orders often remain unquestioningly loyal (Booth, 1993; Wilson, 1967). However, the religious sector receives billions of dollars in tax exemptions and government subsidies, is subject to minimal regulation and oversight and its reporting standards are awash with ambiguity and uncertainty (see, for example, Ferguson, 2006; Smith, 2011; Weekes, 2006). In spite of their obvious financial and political significance – with religious organisations in many nations controlling very significant economic, social and other resources – in many jurisdictions there are no clearly defined accountability requirements or other regulatory oversights responsible for protecting the interests of benefactors and other stakeholders. More typically, those empowered with “doing God’s work” are presumed and trusted to do it properly and efficiently.

This paper is based on an archival study of the Seventh-Day Adventist (SDA) Church and seeks to provide insights to the accountability relationships of this organisation. In particular, it identifies and analyses the auditing practices adopted within this organisation from 1863, the year the church established a formal constitution. Given the absence of any regulatory stipulations concerning internal auditing, the study provides insights to

how religious and not-for-profit sector organisations may develop systems of control, evaluation and accountability in order to facilitate more efficient resource allocation within the organisation.

The SDA Church is a small segment of a world religion, Christianity. It began to develop in its Sabbatarian form in 1844 and adopted its current name in 1860. Although it is of western provenance (primarily, North America and secondarily Europe), it is currently experiencing its most rapid growth in parts of Africa, Asia and Latin America.¹ Today, the SDA Church is a highly centralised international organisation with an adult membership of over 17 million people. Its total tithes and offerings income base in 2011 was almost US\$3 billion and it has over US\$25 billion of assets under its control. The church has a multi-tiered organisational structure with 220,760 active employees worldwide and is extensively involved in social development activities, including institutions such as hospitals (167), universities (111) and schools (7,806). It is also involved in the health-food industry (20 operations) and is engaged in development activities in over 131 countries and regions, providing over US \$281 million in aid (Office of Archives and Statistics, 2011).

The study is informed by the “sacred and secular” theoretical framework proposed by Laughlin (1988; 1990). This seminal work of Laughlin has fostered a small but growing body of literature that explores accounting and accountability practices within religious institutions (for example, Booth, 1993; Carmona & Ezzamel, 2006; Hardy & Ballis, 2004; 2013; Tinker, 2004; Lightbody, 2000; 2003). The predominant focus of relevant prior research has been on the limitations of accountability and the often negligent or reluctant approach adopted by religious entities in relation to public accountability. That is, religious organisations are often posited as having missed the spirit of accountability legislation, regulations and practices. Rather than unhesitatingly providing a transparent and comprehensive account of all activities undertaken, secrecy and obfuscation have often been evident. It is within this context that auditing and associated accountability mechanisms within the SDA Church are examined, with questions raised in regard to its pre-disposition towards internal accountability and tightly held and protected auditing

control. That is, *reporting to peers* within the SDA Church's inner sanctum predominates.

The consequences of these practices are explored, along with the implications for accountability reporting within the religious not-for-profit sector more generally.

The next section reviews relevant literature on accounting and accountability within religious contexts and this serves to outline the background to the study and the theoretical concepts that inform it. The method adopted in the study is also explained. Section 3 then outlines the historical and organisational context of the SDA Church and how this influenced the development of its financial structures. Section 4 analyses the development and function of accountability processes within the Church in order to explain how and why a system of internal auditing was prioritised over external auditing.

The final section presents summarising and concluding comments, including consideration of the broader implications of the study's findings regarding the auditing policy within a large, centralised religious organisation.

2. Prior literature, theory and method

Research into the inherent links between religion and financial resources – and the inevitable bearing accounting has on this relationship – has until recently been considered taboo (see, for example, Booth, 1983; Harris, 1990; Laughlin, 1988). While some research has now started to help fill this lacuna (see, for example, Carmona & Ezzamael, 2006; McPhail *et. al.*, 2004; 2005; Lightbody, 2000; 2003), there remains much work to be done, particularly given that scholarship in this area must confront a complex array of theological and practical issues. For their followers, religions are concerned with the higher order matters of *life and death*. However, globalisation, secularisation and capitalism have begun to transition and coerce religious entities (regardless of theological differences) into an enhanced focus on accounting for the resources to which they have been entrusted. Within this process of change, accounting plays a significant role as religious organisations seek to protect their mission and the resources that enable them to discharge it.

Hopwood (1974, 1977) and Gambling (1977) suggest that in the pursuit of efficiency, organisations have become obsessed with accountability, albeit a form that is unable to take into consideration heuristic functions such as beliefs, morals and values (Ahrens, 1996; Sinclair, 1995). This notion of accountability and its inherent limitations is complicated further within the context of religious organisations, where a theological notion of accountability is likely to be present and may predominate. To date, however, most literature on accountability within religious settings has generally adhered to a sociological framework rather than adopt a theological lens (see, for example, Booth, 1993; Carmona & Ezzamel, 2006; Laughlin, 1988; Parker, 2001; 2002).

Sinclair (1995) referred to this need for an expanded approach to accountability, and the need to embrace qualitative as well as quantitative dimensions, by suggesting that systems of accountability need to be adaptive to distinct organisational settings. This approach is evident in the case of the accountability mission the SDA Church has undertaken, although it appears to be primarily focussed on lateral *reporting to peers*. That is, there is a focus on just one of the four directions that are accepted to characterise accountability relationships: upwards, downwards, horizontal and internal (Cavill & Sohail, 2007; Ebrahim, 2003; O'Dwyer & Unerman, 2007).

Internal accountability also tends to predominate in the SDA Church, in a similar vein to that which Swanson and Gardner (1986) found to exist within the Protestant Church in the USA. The emphasis of internal accountability is to the organisational mission. By extension, where that mission has been provided by God there may also be within this framework an *eternal accountability* that would for the most part dominate other stakeholder demands. This framework of *eternal accountability* is adopted in this study's investigation and explanation of the tendency for the SDA Church to rely on internal auditing practices as the means to discharge, but also control, its accountability responsibilities.

This notion of *eternal accountability* has the potential to counter-balance capitalism's traditional focus on upwards accountability to shareholders and other resource providers.

While the rhetoric permeating much of the dialogue, legislation and reporting on accountability often suggests the need to embrace a broader range of stakeholders, this is often not evident in substance (see, for example, Everett & Friesen, 2010; Grey et. al., 2006; Quattrone, 2004; Tinker, 2004). Similarly, the realities of modern business practice and the internationally competitively driven need to provide an ever increasing return to those who provide scarce resources inevitably distracts the actual practice of accountability from the more expansive discourse it has been subject to over the last decade.

Criticisms of Laughlin's (1988) sacred-secular divide have re-directed accountability towards a universal paradigm that embraces all stakeholders and all aspects of business, life and death (see, for example, Cordery, 2006; Jacobs, 2005; Lightbody, 2000). Jacobs (2005) suggests that the divide represents two extremes of a continuum of experience dependant on individual perception, even suggesting that accounting may have a ubiquitous or even sacred function. Cordery (2006) likewise elevates accounting into the heavenly realm, suggesting that accountability under the stewardship principle should support accounting techniques (also see Hardy & Ballis, 2005; Irvine, 2005; Jacobs, 2005; Kreander *et. al.*, 2004; Lightbody, 2000; 2003). Carmona and Ezzamel (2006) have suggested that, just as religious institutions should eschew any sacred-secular divide in their accountability practices, so should research move beyond this debate to other more fruitful areas.

Religious institutions may be understandably wary of becoming overly pre-occupied with financial resources at the expense of their mission. Indeed, while there is an overwhelming need to embrace financial accountability – and responsiveness to diverse stakeholders – this cannot be at the cost of institutions' fundamental reason for being (see Kreander *et. al.*, 2004; McKernan & MacLulich, 2004). To date, religious organisations (on whose shoulders there is a greater burden of accountability from the mandate they have taken up) have struggled to balance the need to focus on their mission (internal and strategic accountability) while also embracing other more financially oriented aspects of accountability (see Kreander *et. al.*, 2004).

In order to provide insights on these matters within the specific setting of the SDA Church, this paper relies primarily upon archival sources, supplemented by secondary sources for contextual material. The primary sources relied upon include personal and official correspondence, memorandums, committee minutes, magazine articles, reports and other manuscripts. These were retrieved from the extensive and carefully indexed archival collections maintained in the headquarters building of the General Conference of Seventh-Day Adventists at Old Columbia Pike, Silver Spring, Maryland, in the United States of America. In some circumstances, informal interviews and correspondence were undertaken with ex-officio members of the SDA Church hierarchy who held positions within the organisation church during the period the research was undertaken. Such contact was relied upon primarily to help clarify certain facets of the archival study.

3. The SDA Church: historical and organisational context

The Seventh-day Adventist Church grew out of the Millerite movement,² which itself came about as an immediate result of what has become known as the Second Great Awakening.³ Denominational historian Leroy E. Froom (1971: 69) reports that because many early Adventists experienced significant levels of hostility from their former church associates, they were cautious about arranging their congregations into a formal organisation. However, in spite of this lack of formal organisational or institutional support, the new congregations were significant, with between 50,000 to 100,000 members eventually withdrawing from the “regular” churches (Froom, 1971: 70).

Mustard (1988: 62) notes that the reasons why early Adventist believers withdrew from established Protestant denominations included such matters as “the hierarchical nature of their organisations, complex liturgies, [the] wealth and pride of the clergy, [and] “the confusion and competition caused by the vast number of sects and parties”. With expanded membership and an increase in church and related activities, the need for a more formal organisation soon became apparent. The first organisational initiatives followed a Methodist model (see, for example, Mustard 1988; Rice 1985) and established a formal relationship between Local Congregations and Local Regional Conferences. Shortly afterwards, in May 1863, a constitution was adopted that set up a direct

relationship between the Local Regional Conferences and a General Conference that brought together delegates representing the entire movement.⁴ Figure one illustrates this early administrative structure, with the General Conference given strongly centralised authority and responsibility for the general supervision of the ministry and special supervision of all missionary work. From the outset, authority was strongly centralised in the General Conference Executive Committee, with equally strong direct leadership provided by early General Conference Presidents.

<Insert Figure 1: Early Organisational Structure of the Seventh-day Adventist Church>

By 1901, the six original local conferences scattered across the upper American Midwest had grown to 57 local conferences and 41 organised missions located in every major part of the world except China, and formal membership had increased from 3,500 to 78,188 in over 2,000 local congregations (Schwartz, 1979: 267). This rapid growth soon exposed inadequacies in the initial structure, bringing forward numerous suggestions for its reorganisation during the two decades prior to the turn of the century.

At the General Conference held in 1901, two major initiatives were adopted: the inclusion of a new layer of administration called Union Conferences; and the incorporation of previously semi-autonomous para-church entities under the authority and control of the General Conference. The creation of the Union Conferences essentially involved grouping geographically proximate Local Regional Conferences into distinct administrative units. These Union Conferences – rather than Local Conferences – would then be considered the constituents of the General Conference and have responsibility for sending delegates to its sessions. The creation of the Union Conferences implied some decentralisation of authority and also meant that the Church now had four administrative levels: Local Church, Local Conference, Union Conference and General Conference.

The Union Conferences were subsequently re-named Divisions and the pattern of decentralisation continued in 1922 when the Constitution of the General Conference

“gave the Divisions the final authority in their territories as long as their actions were in harmony with the plans and policy of the General Conference” (Land, 1975: 27).

Currently there are 13 Divisions of the General Conference, some of which reflect political rather than geographic groupings (Office of Archives and Statistics, 2011). Figure 2 illustrates the structure introduced during the early twentieth century and which has remained unchanged since then. It is fundamental to understanding control and financial accountability within the SDA Church, as it has enabled a strong sense of unity in belief and practice to be maintained alongside a consistently strong focus on mission and overseas expansion. It has also provided a closely held and well-controlled structure for the disbursement of financial and personnel resources.

<Insert Figure 2: The Present Organisational Structure of the Seventh-day Adventist Church>

The second major change introduced at the 1901 General Conference – incorporating previously semi-autonomous para-church entities under the authority and control of the General Conference – had a regimenting effect, with the adoption of common administrative principles at each of the lower levels of the church (Schwartz, 1979: 279).

As a direct result of this change, the size of the Executive Committee increased significantly, as it increasingly grappled with accountability and control issues. This, in particular, included an insistence on maintaining tight control over the day-to-day administration of the organisation, including routine matters such as personnel transfers and travel authorizations (Barclay *et. al.*, 1972: 46). By 2012 the General Conference Executive Committee had grown to comprise 340 members and invitees and it had 113 standing sub-committees (Korff, 2012). This extensive committee system has often been criticised for its evident inefficiency.

The reorganisation of 1901 set in place an administrative structure that has since largely remained intact. Debate about the need for so many levels has not stopped and various attempts have been initiated to modify the model constitutions set out in the church Working Policy, so far to little effect.⁵ Accordingly, some scholars (see for example

Mustard, 1988; Rice, 1985) have observed that what many early Adventists were attempting to escape has become institutionalised within the SDA Church. Mustard (1988: 26) has noted that “the very nature of Methodism soon resulted (even within Wesley's lifetime) in a very strong organizational structure so that it became the most hierarchical of the Nonconformist Churches in England”. Paradoxically, the SDA Church structure has developed into the most hierarchical and centralized among the Protestant denomination.

In seeking to explain this circumstance, Rice (1985) takes the position that the Seventh-day Adventist Church is actually a blend of two types of church organisation: democratic (congregational) and hierarchical. The essential feature of the hierarchical structure is that power is concentrated at the top of the organisation and authority flows from the top-down. In contrast, the democratic organisation has accountability as its key feature, with church leaders being elected and lay-persons playing extensive roles in church leadership. A lack of accountability is the main weakness of a hierarchical church, because the ordained ministry is emphasised at the expense of membership. Rice (1985: 221) argues that the persistence of this pattern in the SDA Church “tends to remove accountability from church officials to the general membership (as) the proportion of laypersons to clergy steadily decreases with each step up the organizational ladder”.

It might be contended that the SDA Church is not strictly hierarchical because in a theological sense it is not sacramental, with spiritual authority being passed down through ordination at the hands of bishops. Nevertheless, the multilevel structure of authority closely fits the traditional hierarchical model (Dybdahl, 1981). Schantz (1983: iv) summarises this connectedness by further describing the SDA Church as a closely knit organization throughout the world, following the same policies, adhering to a centralised leadership, doctrinal commitment and organisational structure with a likeminded approach to the management of its finances.

It is within this organisational and administrative framework that the SDA Church's financial accountability, internal control and auditing are now considered.

4. Auditing and accountability

In contrast to the SDA Church's spiritual authority and accountability (which, in theory at least, is by no means hierarchical), its resource accountability follows a hierarchical framework that is quite singular and insular in notion. That is, the freedom of religion and broadly held spiritual accountability on which the SDA Church was founded does not appear to extend to its stewardship over financial resources. This is redolent of Lightbody's (2000) findings that the guardians (financial managers) within an Australian undertook deliberate measures to reduce the visibility of such resources.

4.1 An historical focus on finances and tithes

From its earliest days, the SDA Church sought a method of funding its mission on a systematic basis and this led to the development of an extensive financial support system. After briefly experimenting unsuccessfully with a program of simple freewill donations, in 1859 an attempt was made to place matters on a sounder, more predictable, basis.⁶ This ushered in an era that saw the tithing principle firmly entrenched and expanded within the SDA Church.

Financial frustrations amongst church leaders lead to the General Conference in 1876 finally accepting a recommendation that one tenth of all income be set aside to support the clergy. Local church repairs, maintenance and programs were not to be funded from this tithe; rather, it was to be forwarded to each conference and used for the employment of ministers and other evangelical work (Schwartz, 1979: 89, 78 & 179). The local congregations collect this tithe (10% of all income) but retain none of it as all is passed up to the higher level organisational structure that uses it to pay the salaries and expenses of the clergy. This is not without concern to some and occasionally, at Conference sessions, questions have been raised about this level of funding.⁷

This flow of funds can be seen within the context of the administrative structure as set out in Figure 2 above and that is expanded here to show the overall movement within this system.

<Insert Figure 3: Nature of Power Structure>

There are additional sources of funds, namely local budgets (what each member decides to give to support local church activities) and other offerings (not retained but also sent to the General Conference), however some disquiet remains. This is especially so given the SDA Church's progress to become a major denomination in financial and activity based terms, with over \$US25 Billion of resources (net assets) under its control and a substantial interest in many well-known global organisations (see Table 1).

<Insert Table 1: Summary of Church Assets and Other Data: 2010>

The SDA Church has many policies in place to protect its resources, including various internal control mechanisms. However, one policy that stands out for its obsessive characteristics is the General Conference Working Policy (1987-1988) that requires "close counsel" as detailed below:

B 05 05 Union Conference/Mission Officers – In order to preserve the unity of the worldwide work, union conferences and union missions are expected to maintain close counsel with their respective division offices. (General Conference Archives, 1987-88: 23)

"Close counsel" is achieved by General Conference presidents being ex-officio members of Union Conference committees and by Union Presidents being ex-officio members of local division committees. Thus, in practice, Local and Union Conference Executive Committees will nearly always have a representative from the higher organisational structure when it meets. These policies are adhered to very closely throughout the worldwide work of the church and portray a church that has been focussed on control since its inception in 1844, somewhat paradoxically given that this was what its early members were seeking to escape.

4.2 The beginnings of control: Reason de existence of the Auditing Department

The search of archival material held at the General Conference headquarters of the SDA Church in Washington revealed that a focus on auditing and recognition of its importance is evident in the very first steps the church took toward organisation in 1863. Although the first constitution adopted by the General Conference made no explicit reference to auditing, in the same proceedings a Constitution for State Conferences was also recommended and Section 4 clearly provided for the need to implement an auditing function:

Section 4. It shall be the duty of the Executive Committee . . . ; to audit and settle accounts with ministers and others in the employ of the Conference, and to exercise a general watch-care over all matters pertaining to the interests of the cause within the bounds of the Conference (General Conference Archives – GCS Actions on Audit, 1863-1888).

This is the earliest reference to the concept of auditing and it is located at the lower level of the organisational system. It would seem that the function referred to here is more that of a controller than rather than that of a post-transaction or post-review form of auditing.

The 1904 Constitution records a further change under Article V – Audits, in that audits were now required and the structure of the Audit Committee changed to include persons not in the employ of the church. This would seem to be the first step toward the church embracing the concept of auditor independence and clearly the audit is intended to be a review of the accounting records following the annual closure of the books. In the verbatim record of the proceedings of this General Conference session, this change is voted upon and recorded, but no rationale is provided in support of the action. The action initiated a formal auditing process but it apparently was not implemented until 1908, as reported in the General Conference Bulletin of 1909. Except for a change in the number of union presidents who sat on the committee for auditing and settling accounts, these provisions remained unchanged until 1923.

In 1923, the Constitution underwent a major re-write. Audits were still required, but instead of reporting on these to the General Conference in session, the annual audit report was now to be made to the Executive Committee. Only a summary quadrennial report was to be given to the General Conference in session. It appears that the audit

function was also expanded to include audits of administrative levels below that of the General Conference.

With the increasing demand for auditing in the expanding church and with the increasing demands on the time of treasury staff to undertake this function, Church officials eventually recognised the need to create a separate service department, but this did not occur until the 1930s. The emergence and subsequent growth of this audit department is of seminal concern here, and will be examined on the basis of salient events brought to light from the archival records investigated. This is intended to shed light on issues of control and accountability from within the organisation

The 1904 Constitution made provision for the accounts of the conference to be audited at least once a year, although the person who was to carry out this audit was not required to be “external” to the organisation. The audit report appearing in the 1909 Bulletin, for example, is signed by E.R. Brown, who designated himself as “Auditor”. The records indicate that he was a church employee. This approach was not unusual, however, as according to Lee (1982) in the United Kingdom the 1844 Joint Stock Companies Act required an audit but the Act did not require that the auditor be independent of company management, nor indeed that the auditor even be a professional accountant. Church practice therefore appears to have followed the then common practice in the commercial world.

Archival records shed some light on this period with Raymond B. Caldwell reporting in a presentation to the 2nd Annual International General Conference Auditors Seminar, New Orleans, June 1985 that the dual role of the first formally appointed auditors prior to 1914 was inherently flawed and conflicted with the general principles of internal control, as:

The idea of “independence” in the work of the auditor was completely non-existent; no one wanted him to be independent. He was both an employee and an administrator of the organization as well as a committee/board member, and in many cases was so deeply involved in decision-making that any hope of objectivity went by the board.

This situation continued until the United Kingdom Companies Act of 1948 precipitated a general change in both financial reporting and in the requirements for auditing. The major change was that the Act barred from the office of auditor an officer or servant of the company, as well as any person who is a partner or in the employment of an officer or servant of the company, or a body corporate.

Developments in the Church's accounting and auditing practice largely followed rather than led developments in practice in the commercial arena, as can be seen in Figure 5 (sourced from Vinten, 1985). This depicts the historical development of audit objectives within the United Kingdom, starting from the 1844 Joint Stock Companies Act where the primary emphasis at first was on the detection of fraud and error, through to the more contemporary emphasis on attestation of the credibility of financial statements. Finance and treasury matters within the SDA church were probably considered of secondary importance in church life, playing a supportive although necessary service role.

<Insert Figure 5: British company external audit objectives from 1840>

Archival file materials indicate that many changes adopted in auditing practice within the SDA Church during this period were as much related to the skills and expertise of the person appointed to the role of auditor as they were to any external government or professional expectations. One such change agent was Lee Becker. Appointed General Conference auditor in 1958, he held office for a period of six years, retiring in 1964. Becker was the first qualified Certified Public Accountant (CPA) to serve as Auditor and his appointment represented a major step in bringing a knowledge and awareness of professional experience and expectations into the department. His use of the CPA designation with his signature appears to be an intentional strategy to make public that more importance was being placed on the need for professional training, education and experience in the auditing task. It is obvious that as the work of the church became more extensive and as financial policies became increasingly complicated the role of the auditor adapted to a more meticulous focus in dealing with the problem of verification. A further change seen during Becker's time in office was that Becker clearly identified his

role as that of “internal auditor” in his audit statement. The statement, nevertheless closely followed the professional external auditor’s statement format, including a scope and opinion statement.

The development of the internal auditing department appears to have been internally generated not so much out of deliberate management planning, but rather in reaction to internal human resource problems and/or opportunities within the organization. Broader accountability at this stage remained focused on the “eternal”, with financial accountability restricted and closely held by peers within the SDA hierarchy. It appears that this outcome was given little management thought or strategic input, unlike the Protestant Church where Swanson and Gardner (1988) found, contrary to expectation, a very deliberate strategy in place.

4.3 The General Conference Auditing Service

Increasing pressures for professional reform eventually contributed to the adoption of a number of important changes that took place in the mid-1970s and the eventual establishing of a new and more independent auditing department called the General Conference Auditing Service (GCAS). In transcripts obtained from David Dennis, director of the General Conference Auditing Service during the 1970s, he asserted⁸ that the change came about because of pressure from church members who were demanding greater accountability on the part of church leaders, especially in North America. He argued further that if the auditing standards had not changed, such that work would be to the highest possible standards, then the church would have found it necessary to turn over the auditing function to external organisations.

Notes from informal discussions with various auditors who served in the auditing office during this period indicate a clear consensus that the reason for not using external auditors was more to do with cost than any specific philosophical objection or consideration of the need for a wider public accountability. This is in contrast, for example, to the case of the Salvation Army where external auditors are used extensively

to mitigate accountability responsibilities due to the perceived need to report on the use of public monies in resourcing the organisation's activities (Howson, 2005).

The maintenance of the church's audit programme has a substantial price tag, and this may reasonably be taken to be indicative of the seriousness attending the function. According to the current Head of GCAS, the annual cost in 2003 to the church in North America for the work of the GCAS was just over \$6.7m.⁹ However, to have the same financial audit completed by independent, external, public accountants would be estimated to be in excess of \$14m annually. Thus, substantial saving is evident; but this still leaves the issue of whether the savings/independence trade-off is justified.

In 1977, the role of the GCAS was formalised with the following key issues addressed and which have been carried forward into current practice:

1. The GCAS aims to provide an auditing service that maintains adequate auditing standards and ensures objective performance in all its work.
2. Auditors will no longer be participating members of administrative committees or boards. They may be consulted but they cannot force administrative action.
3. They will be permitted to have unrestricted access to all records within denominational organizations and may perform unannounced audits.
4. In order to achieve these and other goals an adequate staff will be maintained.
5. Regional offices will be set up. They will maintain close contact between the GCAS auditor and internal client organizations.
6. The financial records of the General Conference itself will be audited by the GCAS under the direct supervision of an external CPA firm. This firm must be church member based, and the audit must be conducted by church members who work for that firm. The firm will sign the audit opinion.

The requirements concerning the external CPA firm and church membership reveals some sensitivities. The major concern of administrators from the General Conference was that they did not want persons who are not church members as auditors, finding out material facts and perhaps spreading information to others. Issues of mission distinctiveness, understanding corporate and institutional culture were significant

considerations in this decision. On the other hand, the requirement that only church member CPAs be permitted to perform this audit could give rise to questions about the validity of the independence of the CPA firm. GCAS understood these issues, however the church felt that other considerations carried greater weight:

We do not consider that having a church member who is a CPA in public practice in any way compromises his independence. He is a member of the AICPA and licensed to practice as a CPA by the Michigan State Board of Accountancy. As such he is bound by their rules of ethics which do not preclude him from doing the audit of his church. It is akin to a member of a club doing the audit of the club (Korff, 1990).

Against this background, it is useful to consider the function and role of the GCAS. From its beginnings the Auditing Department personnel functioned primarily in a financial audit mode. Detailed checking was engaged in and an Audit Certificate was issued. It is no surprise then, that the current role of the GCAS is much the same, namely that of providing a financial audit.

The area of “operational auditing” has been a venture into new territory for both the Church auditors and those management personnel who are being audited. It appears, therefore, that some further time will need to be taken before it is generally accepted. In that it takes a different approach to the financial audit, operational auditing requires organisational introspection and the asking of such basic questions as what are we doing and how do we go about achieving these goals? Within the Church and also within other not-for-profit organisations, in general, there has often been a negative response to such questions being asked, for they may seem to imply a value judgement on the effectiveness of a leadership team or a particular administration. Nonetheless the concept is important because it must by necessity go beyond the auditor simply enquiring into whether client church organisations have functioned within church working policy guidelines.

Vinten (1985: 164-82) provides a useful approach to evaluating the area of internal auditing and the management audit. He traces the growth of the Institute of Internal Auditors (IIA) from its beginnings in the United States in 1941, outlining the development of the philosophy of the IIA into its Statements of Responsibility:

- 1947 - Primarily accounting and financial matters. Operational matters are “almost an afterthought”.
- 1957 - Reviews accounting, financial and other operations. These are now seen “co-equal partners”.
- 1971 - Reviews of operations. Operations audit has taken over as the priority.
- 1981 - The definition now changes and the function is to “Serve the organisation” and Vinten suggests that the "sky is the limit in terms of broadened scope."

In terms of this model, some levels of the SDA Church appear to be still in the 1947 mode of the IIA. The auditors in the North American Division, for example, which is the home-base for the philosophy of the GCAS, are exclusively CPA qualified and perform an audit function that is entirely financial in scope. The Policy Audit that they complete cannot be considered anything that approximates the thrust of an “operational audit” serving the entire organisation.

5. Summary and conclusion

This study has provided some unique insights into the SDA Church, which, although historical in nature, provide indications of future accountability measures as they reveal motive and intent.

The initial reticence and antipathy toward the hierarchical nature of the Protestant denomination from which the Adventist church was initially formed is perceived as being inevitably linked to the presence of extensive controls and administrative systems within the SDA Church. Ultimately the structure adopted has led to a tightly centralized form of

church organization that evolved and developed as the church expanded. The current structure of the church means that members participate mostly at the local church and conference level creating some distrust between central ownership and local membership. This has highlighted the need for improved transparency in matters of financial administration.

There has also been reluctance by the SDA Church to allow outsiders into the inner sanctum, with tightly held and protected auditing control. Whether this is overt in intent is beyond the scope of this paper, however it does give rise to issues of motive no matter how actions be justified.

The primary reason for the adoption of internal auditing within the SDA church appears to have been based on a desire to conserve money. External audits were much more expensive and the strong sense of stewardship and the perennial experience of inadequacy of funding led to the development of an effective internal audit process. Other factors underlying the decision appear related to the fact that external auditors may not always understand the mission rationale for financial decision making and that the church is not a publicly listed company but functions more as a family business. Consistent with this ethos, financial matters need to be kept “within the family”.

The financial structure of the church is closely interlinked with the hierarchical structure of the organisation. The tithing system continues to be the backbone of the financial support. Because most of the church’s funding is passed on for redistribution at the upper levels of the church there has developed an even more acute need for transparency and the role and function of the auditing process has become even more critical. The need for auditing developed early in the church and auditing practices were adopted serving the purpose of assuring church members that funds were being utilised appropriately.

Over time an audit department developed within the church, although there was a strong internal link to the central treasury with auditors frequently fulfilling the dual role of financial administrator and then as auditor. The GCAS was a natural extension of the

early initiatives but came in response to mounting pressure for increased accountability. This led to it being set up as an independent, internal audit service with the General Conference, which itself is now audited by an external firm, comprising church members. The GCAS audits are financial in scope and as yet do not include any components that are usually included within the broader scope of generally accepted definitions of internal audit.

Accountability to peers within the churches inner sanctum appears to have somewhat diminished over time with the SDA church now insisting that internal auditors do not hold positions within the department being audited, audit reports are communicated directly to the General Conference and external audit firms are engaged, albeit the auditors must be SDA members.

Salient factors leading to the development of internal auditing within the SDA Church have also in part contributed to its decline, where the focus on external accountability has been peripheral to other strategic factors. These factors include cost minimisation, a pre-occupation with out-dated financial as opposed to operational/social audit endeavours, and possibly, at least in substance if not form, a perception that the audit department within the SDA Church still focuses its accountability on peers by refusing to allow non-members into its inner sanctum.

Perceived righteous accountability within church administration and indifferent members focused for the most part on their own *eternal accountability* encourage religious entities to focus on strategic issues that are viewed, rightly or wrongly, as being on a higher plane to external accountability. Hence, public perception is not an overriding factor in determining accountability measures, as these entities see themselves reporting to a much higher entity for the mission which they have been entrusted.

Conflicting views about the accountability of religious organisations predominate any discussion around the way forward. Many nation states have implemented enhanced accountability and transparency regimes and yet there is still considerable freedom for

these entities that on the surface appear to be guided by a higher purpose, espousing a *righteous accountability* extraneously while within their inner sanctums still focusing their accountability inwards, on *reporting to peers*.

The nature of religious organizations and their role within society has been the subject of much debate and contention throughout history (see for example Laughlin, 1988; Quattrone, 2004; Tinker, 2004). There are those who advocate the separation of state and religion (see for example Daly, 2003; Kreander *et. al.*, 2004; Tinker, 2004), insisting that religious entities be restricted in their scope to undertake civil and to some extent commercial activities. It is against this backdrop that a sceptical world watches entities – that have in the past been entrusted with being at the forefront of morality and justice – sometimes failing miserably. How brightly these entities shine a light on their accountability, representing without hesitation a truthful and transparent account of all activities undertaken, waits to be seen.

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Table 1. Summary of Church Assets and Other Data: 2010

Denominational Assets:	
Conferences	US\$ 7 923 205 801
Associations	1 742 118 623
Adventist Book Centres	74 653 886
Educational Institutions	5 445 483 242
Health-Care Institutions	9 015 332 291
Publishing Houses	265 946 671
Food Industries	517 433 754
Media Organisations	97 029 913
Temperance Societies	234 680
Servicemen Centres	47 367
Total	US\$ 25 081 486 228

Note: All figures are quoted in United States dollars.

Source: 2010 Statistical Report prepared by the Office of Archives and Statistics of the General Conference of Seventh-day Adventists in Washington.

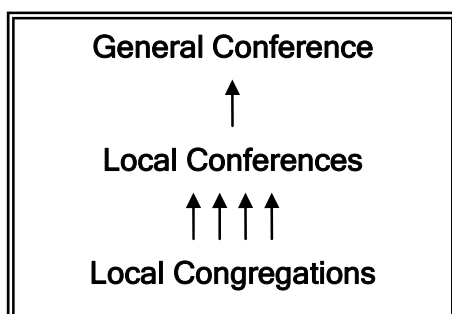


Figure 1: Early Organisational Structure of the Seventh-day Adventist Church

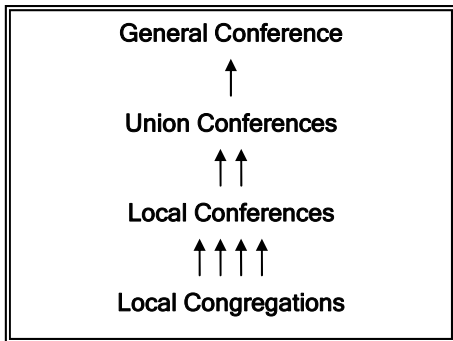


Figure 2: The Present Organisational Structure of the SDA Church

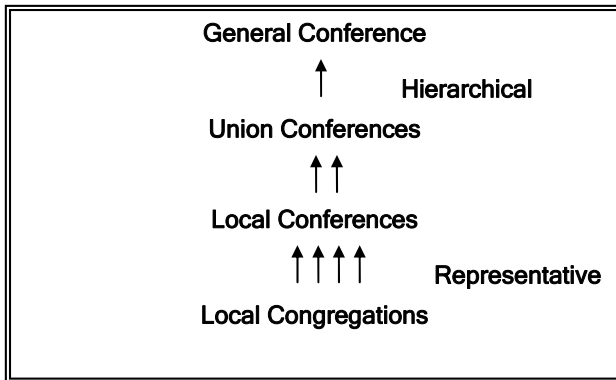


Figure 3: Nature of Power Structure

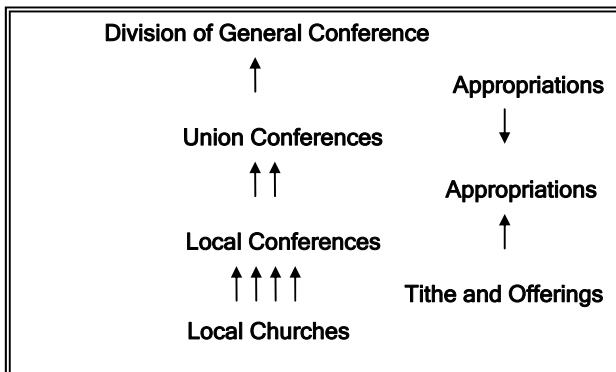


Figure 4

Period	Primary Objectives	Secondary objectives
1840 - 1880	Fraud and error detection	None
1881 - 1900		(i) Verification of financial records' accuracy
1901 - 1920		(ii) Attestation to credibility of financial statements
1921 - 1940		
1941 - 1960		
1961 -		

Figure 5 British company external audit objectives from 1840

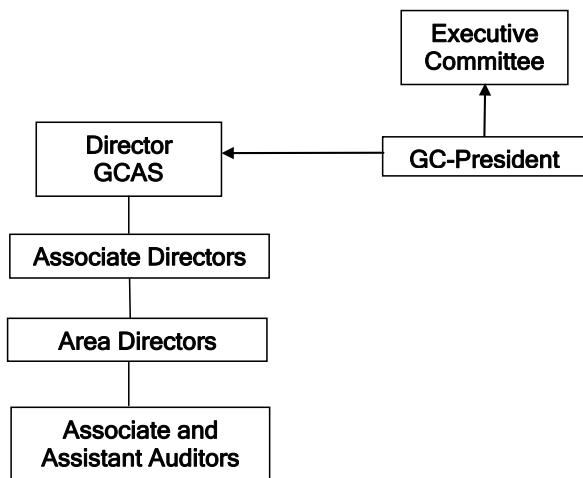


Figure 6

Notes

¹ Basic data are updated annually in the *Yearbook: Seventh-Day Adventist Church*.

² William Miller (1782-1849) was raised in a Baptist home. As a direct reaction to experiences during the 1812-1814 war with Britain he renewed his contact with the Baptist church and became a Bible student. He became active in accepting public speaking appointments in all the major Protestant churches – Congregationalists, Methodists, Baptists and Presbyterians – where he set out his beliefs. His name is permanently linked with the religious fervour of that era as the Millerite Movement.

³ Adventists believed that Jesus Christ would return within a very short time but were disappointed in their hopes. Scholars who wish to read further on this period of Seventh-Day Adventist history to obtain a broader contextual understanding may find Gary Land's *Adventism in America* (Grand Rapids, Michigan, Eerdmans, 1986) a helpful study. Kurt Reynold's chapter "The Church under Pressure: 1931-1960" provides information on the impact of the Great Depression on the church and also addresses a number of other issues the Church struggled to deal with. The survey volume by Richard W. Schwarz and Floyd Greenleaf, *Lightbearers: A History of the Seventh-day Adventist Church* (Nampa, Idaho, Pacific Press, 2000), is a helpful introduction. Another prime resource is found in Volumes 10 and 11 of *The Seventh-day Adventist Commentary Reference Series* (Washington, DC, Review and Herald, 1954 ff). These two Volumes comprise the *Seventh-day Adventist Encyclopedia*. Introductory information can be found here on almost every topic connected with the study of the Church. For a general introduction to the organizational development and structure of the Seventh-day Adventist Church, the reader should consult George Knight's *Organizing to Beat the Devil: The Development of Adventist Church Structure*, (Hagerstown MD, Review and Herald, 2001). Barry D. Oliver's paper "The Source, Nature and Use of Power in the Administrative Structure of the Seventh-day Adventist Church", (Adventist Heritage Room, Andrews University, 1986), provides a theoretical analysis and precedes his published work *SDA Organizational Structure: Past Present and Future*, (Berrien Springs MI, Andrews University Press, 1989). The focus of this latter study is the 1901 administrative reorganization of the church, but it provides a helpful understanding of attitudes concerning the use of power and the exercise of control in the Church organization.

⁴ A Conference refers to a group of churches in a geographical region. The General Conference at that time was an umbrella organisation of Conferences with a titular head described as President.

⁵ See *Spectrum*, 1984 Vol 14 pages 14 forward and especially the *Task Force Report* - "Defining Participation: A Model Conference Constitution."

⁶The result became known as "systematic benevolence". Each member was challenged to set aside a particular sum of money on a regular basis and the guidelines were quite prescriptive: Males from 18 to 60 years should give 5c to 25c weekly; females of 18 to 60 years should give 2c to 10c. In addition to this it was suggested that for every \$100 of property owned an additional one to five cents per week should be set aside. This system was recommended to Adventists in 1859. Two years later, in 1861 James White suggested that income should be estimated at 10 per cent of the value of property owned.

⁷ The following appeared in the report on the 1990 South England Conference Session: "In the question period the Treasurer was asked about the seriously high level of contributions made to the BUC and TED and whether this level should be maintained". The Treasurer's response was not reported. (*Messenger*, 2 November 1990).

⁸ Letter from D. Dennis, 3 January 1990.

⁹ Email from Eric Korff (GCAS Director), 27 January 2005.