

Effectiveness of Internal Control on the Finances of Churches in Greater Accra, Ghana.

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Abstract

The embezzlement and mismanagement of funds from religious organisations particularly in churches is becoming common. Such disgraceful acts have raised a lot of concerns about the effectiveness of internal control systems in churches. The study seeks to investigate the effectiveness of internal control, determine the internal procedures and to find out the independence of internal control functions in churches.

Keywords: Internal Controls, Effectiveness, Churches, Finances.

Introduction

A primary lesson from financial failures and collapse of many institutions is that internal controls are essentials to cooperate success and survival to every institution.

Recent reports on mismanagement of church funds have put into question the system of internal control existing in religious organisations (Bowrin, 2004).

Poor control systems are usually the cause of these activities. Understanding the concept of internal control is important for developing and understanding its effect on the performance of institutions. Developing role of the internal control is also reflected in its current definition, which Cahill (2006) defined as the system of internal administrative and financial checks and balances designed by management, and supported by corrective actions, to ensure that the goals and responsibilities of the organisation are achieved. Churches are religious organisations that are established mostly not for profit gains but to serve the religious needs of the people. Every church should be concerned about financial management and mismanagement in their organisation. It must be a priority of the church leadership to protect the church, its membership and staff.

Implementation of proper internal controls will lead to effective and efficient operations of the organisation (Spitzer, 2005).

Internal controls serve a straightforward purpose: to detect fraud and errors (Kieso, 2010). This is especially vital for non-profit organisations, which depend on public trust more than other organisations (Wilhelm, 2006), and particularly for religious non-profit organisations, which rely on people's faith as well (Mulder, 1999).

This project work deals precisely with churches which are a subset of religious non-profit organisations.

Problem Statement

A common misconception by most church leadership is to think that internal control exists only for the purpose of detecting and preventing fraud. This misconception has often discouraged church leaders or religious organisations from implementing sound control policies because they do not want to appear to be untrusting. Laughlin (1988) argued that the Church of England regards accounting as an activity that should not interfere with the more important spiritual endeavours of the Church of England.

When examining the use of internal controls in churches today, as compared to secular organisations, it seems that these churches are far behind. Why aren't the churches using proper control procedures in the area of finance?

Presently, a major problem in churches is that they are not using appropriate professional methods in the carrying out of the administrative activities of the church, especially in the area of finances. Many churches have the perception that all Christian workers can be trusted hence there are a lot of cases of theft and fraud that goes on unnoticed. The donors also have the perception that they are contributing to God and not man and all they want in return is 'Blessings from God', hence they aren't interested in knowing what their contribution is used for. The basic problem to be considered can be stated in a question as follows: Are churches using internal controls in the area of finance to safeguard assets and prevent losses from theft, fraud, misappropriations and how effective are these internal control systems?

Objective of the study

The general objective of the study is to investigate the effectiveness of internal controls on the finances of churches.

Specific Objectives

Specifically the study seeks to:

1. Investigate the existence of internal controls in churches
2. Determine the internal control procedures in churches
3. Find out the independence of internal control functions in churches
4. Examine the impact of internal controls systems on the disbursement of funds.

1.1 Literature review

The concept of internal control is very vital for mounting an understanding of its impact on the performance of an organization. The internal control system of an entity is strictly connected to the structure used by management of the entity to oversee the activities of the organisation, or to what is defined as the entity's corporate governance. Internal Controls help safeguard funds, provide efficient and effective managing of assets, and ensure precise and accurate financial accounting.

Internal controls serve a straightforward purpose: to detect fraud and error (Kieso, 2010). Millichamp (2002) described internal control as a whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard its assets and secure as far as possible the completeness and accuracy of the records. Internal control is a management tool which is important for both profit and non – profit organisations. According to Wilhelm, (2006) internal control is especially important for non – profit organisations which rely on public trust more than other organisations. Poor internal controls lead to asset misappropriations, corruption, organisational fraud and fraudulent financial statement (Miller, 2005). Churches are non-profit organisations and as such they do not issue shares and their missions are not to maximise profit. Church administrators may not be accountable to shareholders; they are accountable to members of the churches from whom capital for the running of activities comes from. Recent reports on mismanagement of church funds have put into question the system of internal control existing in religious organisation (Bowrin, 2004). Petrovits (2011) defined internal control as the process put in place by management to provide reasonable assurance regarding the achievement of effective and efficient operations, reliable financial reporting and compliance with laws and regulations. Internal control is not just a single activity but a series of activities put together by management.

Mwindi (2008) also defined Internal Controls as processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Though there are differences in the two definitions, it can be clearly said that both definitions make use of the same concepts with the same objectives. The main objective is to balance asset protection with efficient operation. Internal controls consist of all the measures taken by the organization for the purpose of protecting its resources against waste, fraud and inefficiency; ensuring accuracy and reliability of accounting and operating data; ensuring compliance with the policies of the organization; evaluating the level of performance in all organizational units of the organization (Kaplan, 2008). According to Cunningham (2004), Internal Control Systems begin as internal processes with the positive goal of helping a corporation meet its set objectives. Spitzer (2005) sees internal control as a system of policies and procedures that are put in place in order to ensure that the assets of an organization are protected and that there is reliable financial reporting. In all, it is clear that internal control plays important role in strengthening the internal procedures of churches in reporting. With regard to risk assessment, it can be claimed that it is the identification and analysis of relevant risks associated with achieving the business objectives (Karagiorgos et al., 2009).

Hence, control activities are the policies, procedures and mechanisms that enforce management's directives (Hevesi, 2005). In line with the above, on the one hand the information and communication component refers to the identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish the financial reporting objectives (Aldridge & Colbert, 1994).

Finally, it is commonly acceptable that internal control systems need to be monitored in order to assess the quality of the system's performance over time. On the other hand, Irvine (2005) argues that internal accounting controls are "a manifestation of holistic stewardship...consistent with a church's sacred agenda" and they assist it in achieving its spiritual goals.

Internal Controls should be financially important to churches, since trust is an important part of non-profit organizations.

According to Myers (2012) if money is disbursed for only church business, it is also an important part of a financial system, both for managerial and tax purposes as well as to verify that money is not being dispensed fraudulently.

John (2011) said that the current environment is ripe for scandal and church leaders need to be wise by completing forms and filing records will go a long way to assist a church in case of an investigation by tax authorities.

Laughlin (1988) argued that the Church of England regards accounting as an activity that should not interfere with the more important spiritual endeavours of the Church of England. They are allowed to exist to assist the created internal resourcing units, but their role is clearly limited. Thus, parish accounting systems are rudimentary, precisely because they actually have no part to play in this clearly demarcated spiritual unit. As suggested by Laughlin (1988), conflicts may exist between the sacred belief systems within churches and the secular role of accounting. Internal control is likely to be viewed as secular rather than sacred, and as a result,

considered irrelevant and unnecessary. Persson and Tabellini (2000) report that although church financial disclosures are relatively infrequent and not uniform across churches, this deficit does not appear to alter the confidence of church members that their contributions are being used appropriately.

Shaibu (2013) also suggested that frequent reconciliation of bank statements related to offerings must be instituted to avoid any vacuum created for people to take undue advantage to pilfer church offerings and the need to have a purchase order that should be used to control church purchases and advanced payments to ensure transparency.

This enables on going management review and control of church organisations finances. Financial reports provide the vital information needed to plan, budget and control church finances. In event of resourcing crisis, accounting is relied on to provide information about the existence of such crisis so that action could be taken to overcome it (Irvine, 2005).

1.1.1 Methodology

This study employed survey method based on the use of a structured questionnaire (both closed and open-ended questions) with follow up personal interview (one-on-one interview) to collect research data. The research gathered both quantitative and qualitative data to address the issues raised on the research topic. The research adopted case study method by considering church leaders, voluntary workers and church members as the target population. This took place in 2013.

Results and Analysis

This section of the research provides a realistic analysis on the main findings of a survey on the effectiveness of internal control system in the finances of Churches.

Presentation and discussion of findings was made in this section. The various response and feedback on the questionnaire were critically analysed and discussed with supporting tables.

A total of 50 questionnaires and all were received with responses. The following is the analysis of the responses for the questionnaires distributed to the church.

Awareness of Accounting and financial system in the church

Table 4.5: The church has an accounting and financial management system

Response	Frequency	Percentage
Strongly Disagree	3	6%
Disagree	4	8%
Neither Agree Nor Disagree	3	6%
Agree	28	56%
Strongly Agree	12	24%
Total	50	100%

Source: Field Data 2013

The respondents were asked whether they had any knowledge of an accounting and financial management system being implemented in the church. Three respondents representing six percent strongly disagreed that there was such a system in place. Four respondents representing eight percent disagreed whilst twenty - eight respondents representing fifty – six percent agreed. There were twelve respondents representing twenty-four percent who strongly agreed.

Commitment to the operation of the system

Table 4.6: Respondents' view on commitment to the operation of the system

Response	Frequency	Percentage
Strongly Disagree	4	8%
Disagree	3	6%
Neither Agree Nor Disagree	9	18%
Agree	23	46%
Strongly Agree	11	22%
Total	50	100%

Source: Field Data 2013

The researcher seeks to enquire from the various respondents whether they were committed to the internal control system in place. Results from the analysis of the question revealed that even though majority of the respondents either agree or strongly agree that management of the church are committed to the operations of the accounting and financial management systems in place, some respondents think otherwise. But from the data it is clear that the management body of the church is aware of the benefit of implementing a sound financial management system. This may be due to the fact that the reliability of financial information can only be obtained through the implementation of sound financial procedures which are capable of faithfully recording all the operations performed by the church.

Monitoring and implementation of internal systems

Table 4.7: Respondents view on monitoring and implementation of internal systems

Response	Frequency	Percentage
Strongly Disagree	4	8%
Disagree	3	6%
Neither Agree Nor Disagree	7	14%
Agree	25	50%
Strongly Agree	11	22%
Total	50	100%

Source: Field Data 2013

The respondents were asked whether the internal controls implemented were monitored. Responses from the respondents show varying agreement to monitoring and implementation of internal control system. However, it can be deduced from the data that some respondents think management do not closely monitor the implementation of the internal control system. From responses there may be an inadequate monitoring of the system. An inadequate monitoring of the implementation of internal control system can hinder the management responsibilities of church officers and employees and place them in a position where they may be tempted to engage in questionable activities and accounting practices, or at least could subject individuals to unwarranted accusations of such activities. Furthermore, it is commonly acceptable that internal control systems need to be monitored in order to assess the quality of the system's performance over time.

Audit of accounting records and underlying internal controls

Table 4.9: Respondents view on annual auditing of accounts

Response	Frequency	Percentage
Yes	36	72%
No	14	28%
Total	50	100%

Source: Field Data 2013

The Respondents were asked their opinion on whether the accounting records are audited annually. Thirty-six respondents representing seventy-two percent responded "Yes" with the remaining fourteen representing twenty-eight percent responding "No". It is clear that the churches have some form of annual audit whether by a professional or not. The difference in response may be due to the fact that audited accounts are not published and publicly made available to members of the church.

Accounting procedures

Independence of the Internal Auditor

Table 4.16: Internal Auditor performs his duties independent from management

Responds	Frequency	Percentage
Strongly Disagree	0	0%
Disagree	8	16%
Neither Agree Nor Disagree	7	14%
Agree	23	46%
Strongly Agree	12	24%
Total	50	100%

Source: Field Data 2013

The respondents were asked whether the Internal Auditor performs his duties independent of management. Eight respondents representing sixteen percent disagreed whilst twenty-three respondents representing forty-six percent agreed. There were twelve respondents representing twenty-four percent who strongly agreed. However seven respondents representing fourteen percents neither agreed nor disagreed. Fraud or error can only be detected only if the auditors have autonomy and can work without any management influence and according to Konrath, (1996) internal auditing is an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization. From the data above, it can be seen that the auditors of the church have some degree of autonomy though it may not be absolute.

1.1.2 Summary, conclusion and recommendations

Summary of findings

The study revealed the existence of internal control activities in the church and this affects the monitoring and use of church funds. Internal control systems are designed in a manner that can be relied on and trusted by all stakeholders including members of the congregation. Inadequate internal controls can hinder the effectiveness of church officers and employees and place them in a position where they may be tempted to engage in questionable activities or accounting practices. If internal controls do not exist in churches, the possibility of

church officers and volunteers who are not involved in any financial improprieties will be subjected to accusations from others. This can breed distrust and cause conflicts to arise in the church.

The study also revealed the effective nature of internal control in the church. This stems from the fact that the overall objective for instituting the internal controls in the church is being achieved. This is because the assets are being protected against waste, fraud, and inefficiency; accounting and operating data have been accurate and reliable; and policies have been complied with. These have been possible through segregation of duties and authorizations of transactions before they are carried out.

Conclusion

It is worthwhile concluding that churches have some form of internal control system present and that there is a significant relationship between internal control and the finances of the churches or organization. It is somehow difficult to rate a churches' internal control environment as weaker or stronger, simply based on the responses of the respondents. This difficulty occurs because the internal controls themselves are not necessarily created equal, and have different goals; the response is simply an approximation for the strength of the internal control environment.

Additionally, a church (or any institution) may have very weak controls for accuracy example a non-computerized system but very strong controls for fraud prevention purposes; this would result in a very high-numbered response on the survey, but could still allow very serious problems in the accounting system if accounting or mathematical errors occur, even if fraud does not.

Recommendations

The researcher's recommend that leadership of churches should;

Implement and monitor systems

Internal control systems must be maintained and continually re – evaluated by the audit committee in order to resolve all set-backs and make it possible for all stakeholders to be able to rely on it as very effective. Due to the volunteering nature of employment in many church structures, re – evaluation of internal control system should be done in a manner not to offend any member or stakeholder but rather continuous education and strategic approach will not make any member feel unwanted or witch-hunted.

Employ cash disbursement and financial management practices

Given that cash is very susceptible to fraud and theft, the internal control on cash disbursement should cover important aspects of financial management practices. Financial management practices include ensuring the physical custody of the funds, the segregation of duties, authorization, recording of financial (cash) transactions and periodic reconciliation.

Pay attention to quality Financial Reporting

A significant positive relationship existed between staff competencies and effectiveness of the internal control system which will go a long way to affect the reporting of the church's financial accounts. This means that staff competencies strongly influence quality of financial reporting, and therefore if promoted by church leadership it would lead to quality of financial reporting and the handling of the internal control system or procedures. This can be achieved through offering of training programs to the church leadership.

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