A STUDY OF FINANCIAL MANAGEMENT PRACTICES AND THEIR EFFECT ON THE QUALITY OF ACCOUNTABILITY IN CHURCHES: A CASE OF FRIENDS CHURCHES IN NAIROBI.

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Declaration

This research project is my original work and has not been presented for a Degree in any other University or any other Award.

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This research project is submitted for examination with my approval as the University supervisor.

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This research project is submitted for examination with my approval as the Chairman of the Department.

Signed Mr. F. Ndede, Chairman, Department of Accounting and Finance

Date 20/11/2012
DEDICATION

To my parents, husband, Benjamin and my son Jeremy, thank you for your moral support
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I recognize the effort of my supervisors Mr. Ndede and Mr. Theuri in guiding me to ensure that the project meets the laid down regulations.

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ABSTRACT

In the past financial management was often regarded as a bad word in the non-profit world. The importance of financial management to these organizations however cannot be underestimated. Many not for profit concerns obtain significant resources from voluntary donors who expect no product or service in exchange but who are concerned with whether their donations are achieving their intended purpose. Many of these organizations have even turned to for profit activities; most of these same organizations however have overlooked the potential of better financial management to enhance revenues. Churches are one group of non profits that receive a lot of funds in form of private contributions from the public. The general objective of this study was to analyze the effect of financial management practices on the quality of accountability in the churches in Nairobi. The researcher limited the research to Friends churches that are situated in Nairobi because of financial and time limitation. A cross-sectional survey study design was used and questionnaires were the instruments of choice, this instrument was structured to have both open ended and closed ended questions. Simple random sampling technique was used to select the study sample of 25 research subjects/churches while the primary data collected was coded and analyzed using SPSS to get the frequencies, percentages as well as generate graphs and table. The study found out that most of the churches have put in place basic financial management practices. The greatest challenge these churches face is how to improve their internal control systems.
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LIST OF ABBREVIATIONS

NPMC - Non profit making concerns
GDP - Gross Domestic Product
NPO – Non profit making organizations
DEFINITION OF TERMS

Financial management; The managing of income and expenditure and making decisions that will enable the business to survive financially.

Nonprofit organization; An organization that is not allowed to distribute profits or surpluses to its board or those in control of the organization

Philanthropy; Goodwill; active effort to promote human welfare

Volunteer; One who does meaningful, but unpaid, work for the non profit organization

Church; A building or an organization set apart or consecrated for public worship, especially one for Christian worship.

Denomination; A group of churches with their own individual traditions

Gross domestic product; The total value of the goods and services produced in a nation during a specific period usually a year and also comprising the total of expenditures by consumers and government plus gross private investment.
CHAPTER ONE

1.1 Background of the study

For many years financial management has not been given the importance it deserves in the non-profit sector. The existing studies of Accounting in non-profit organizations have revealed a consistent pattern of resistance to the logic of the accounting craft (Berry, 1985; Broadbent and Ezamel, 1994). This resistance was seen to be particularly significant in church organizations due to the extreme impact of the transcendental nature of the ideology inherent in such entities on the application of the rationally underlying accounting practice (Booth, 1993 and 1995; Laughling, 1984 and 1981). Resistance to accounting in churches has generally been theorized to be caused by the existence of a sacred and secular divide within religious organizations. The sacred are spiritual issues while the secular are the systems used to support them. The sacred is dominant over the secular.

According to Chandra P (1990) financial management in simplicity is about planning income and expenses and making decisions that will enable you to survive financially. Organizations whether for profits or not for profit receive income, incur expenses and are faced with situations where they are required to make sound decisions in order to survive financially. With good financial management practices in place and a qualified finance manager this task becomes very simple.

Over the years cases of financial misappropriations have been reported in churches in Kenya. This may due to churches not taking the Finance Function seriously.
1.1.1 Importance of good financial practices

According to Shim, Joel and Sigel (2005) Financial Management is the process of planning, decisions in order to maximize the owner’s wealth. Financial managers have a role in cash management, in the acquisition of funds, and in all aspects of raising and allocating financial capital, taking into account the trade off between risk and return.

It is important for you to have knowledge of finance and to know how to apply it successfully, whether you deal with production, marketing, personnel, operation or any other aspect of corporate functioning.

Chadwick (1988) Acknowledges that financial knowledge aids in planning, problem solving and decision making. All management entails the allocation of scarce resources in the most appropriate ways. This requires the presentation of objectives and it also requires cost-benefit analysis. Financial management is no exception. Given the fact that there are large volumes of data competing for the financial managers’ attention, decisions must be made regarding relevant data and how they are to be used.

Financial management as we know is of utmost importance to business and their practices, but the question which always arises in the case of religious institutions is how we can enshrine financial management principles within a “sacred” institution.

This is an age of accountability, an age in which the impulse to charity is viewed in terms of unit costs, third party payments and financial statements. It is a time when human service professionals are expected to be efficient as well as effective in delivering services. In order to do so they need to be familiar with the financial aspects of human service management. One reason for the lack of skills in financial matters among non-profit personnel has to do with the move of non-profit themselves.
The lack of skills in the area of financial management has been particularly detrimental to human service organization and human service professional in general. One measurable way that agencies can be accountable is in the recording and reporting of their financial transactions.

### 1.1.2 Role of Financial Management in the Growth or Development of Organizations

Lucey (2003) in his book management accounting argues that the management of non-profit organizations is often ill understood because we do not understand these organizations well, and it is frequently ill concerned because we operate from wrong assumptions about how non-profit organizations work. He further states that in addressing this premise, one has to keep in mind that in the past, financial management was often regarded as a bad word in the non-profit world. As a practice at odds with what some regard as the essence of the sector i.e. voluntarism, philanthropy, compassion and a concern for the public good.

According to Correia, Flynn (2008), the emphasis of non-profit management as primarily financial management has profound implication for non-profit organizations. Financial management views organizations quite abstractly and as insular entities that can be measured in terms of inputs, outputs cost and revenue, assets and liabilities. We can rationalize the operation of organization using the frame of reference of corporate accounting, yet we do so with one major handicap: non-profits cannot fully copy business practices.

Lucey (2003) states that in not for profit organizations, accounting is not only about costs per se, on the contrary, its primary purpose is the establishment of internal and external prices that business can charge goods and services. In other words financial management is the management of costs and revenue for profit maximization yet what is the equivalent of the same in non-profit organization? Because they do not maximize monetary profits and pricing of non-profits services
typically and primarily reflects administrative prices and costs considerations, financial management in non-profit organizations is often little more than costs controlling and cost cutting.

It is certainly important to contain costs, nonetheless we have to ask “cost control” for what and for whom? in the business firm, it is not difficult to answer these questions; there we economize on costs because we wants to maximize return to owners, for non-profit organizations, the matter is more complicated and involves aspects of equity, service to the public good, value considerations, compassion, among others.

Combs, Hobbs (2005) explains that financial management is first and foremost formal management, not management of purpose and mission, i.e. those very aspects that are the core of non-profit organizations. The copying of business models and practices into the world of non-profit management has for better or worse made inroads via the financial route primarily, and less so on other equally legitimate avenues.

1.1.3 Factors Affecting Good Financial Management Practices

Currently, churches the world over are faced with many challenges arising from the changing external and internal environments. In the local scene, the decline in national economic output has had an impact in churches. There have also been major changes in the source of funding. Previously, most churches received a lot of financial, material and technological support from their mother churches or donors from the west. At present however, donor funding has declined or dried up completely as in some cases, churches have shifted their fund raising efforts to the members. Resource mobilization and financial management is therefore becoming a major issue among the local churches.
Besides this, it is important also to note that over the years with the increase in numbers, there has been an increase in number of educated members who are not only concerned about their spiritual well being but also transparency.

1.1.4 Status of Financial Practices in Churches

Cases of financial mismanagement have been reported in many churches even in Kenya, these churches can be classified into local and international/global, with the local having there management controlled within the country of operations, while the international/global having some or all control of their operations done from the church headquarters as seen in catholic church, Seventh day Adventist church and Anglican church among others. Though we have these categories, studies by Chester(1990),Duncan(1992) who are quoted in Duncan(1998) have shown that none of the religious institution categories are immune to financial misappropriation for He argues All are” Sinners” even in church hence liable to the temptation to misappropriate finance given opportunity.

The church is unique in nature, it is characterized by both organizational and spiritual attributes, it is at once the body of Christ and a human institution (Auken and Johnson, 1985) because of this unique dual nature, the local church requires both spiritual and organizational management.

Over the past two years, there has been an increase in number of incidences about accusation on misappropriation of funds being leveled by church members against the church leaders in Kenya. the following are some of the cases of funds misappropriation that have been reported in the media in year 2010; St Monica parish in Nakuru ,AIC church in Tudor, Mombasa(July 15th,2010) and Legio maria church in Makongeni, Nairobi(Sept 10th,2010) among others.
It is against the background of the increase in reported cases that the need for this study arose with an aim of trying to answer why cases of financial misappropriation are being witnessed in the local churches where highest level of accountability, transparency and honesty are expected given that they are “holy institutions”

1.2 Statement of the problem

Non profit making organizations/concerns contributes significantly to the gross domestic product (GDP) of both developing and developed economies. In the year 2000 alone, the contribution of the nonprofit making concerns (NPMC) to the Kenyan economy was US $ 270 million this represented 2.5% of the total GDP. The total operating expenditure of all Kenyan NPMC in 1999 was estimated about Ksh 5.3 billion out of Ksh 623 billion total GDP in the same year. This comes to about 0.9% of the total GDP in the same year (organization survey data 2001)

Religious organizations are some of the largest contributors as well as consumers of NPMC. According to Indiana university center for philanthropy’s giving USA report (2006), private contributions go largely to religious organization.

According to Christian Science monitor, a Christian magazine of June 2006, in 2005 an estimated $ 93 billion of the estimated $ 260 billion in private contribution were received by congregations and religious entities in USA. Education ranked a distant second gathering $ 39 billion in private gifts. This pattern is more likely to be replicated in Kenya. Kenya is largely a Christian nation, and as a result, more of the private contributions are likely to be received by churches.
This study was informed by the cases of financial mismanagement which have been cited in churches over the years. It is as a result of this that the study aimed at analyzing the financial management practices applied in churches in Nairobi and how they affect the quality of accountability in these churches. It also attempted to find out the practices that may be adopted by these churches to help curb the frequent cases of financial malpractices in churches in Kenya.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to analyze the effect of financial management practices on the quality of accountability in churches in Nairobi.

The specific objectives accomplished were to;

i. Determine the financial management practices applied in Friends churches in Nairobi.

ii. Assess how the financial management practices affect the quality of accountability in these churches.

iii. Suggest ways and means of adopting the best financial management practices in churches.

1.4 Research Questions

The specific research questions asked were;

i. What financial management practices are applied in churches in Nairobi?

ii. How do these practices affect the quality of accountability in churches in Nairobi?
1.5 Significance and justification of the study

This study has the following significance;

1.5.1 To scholars

This study is beneficial to scholars who wish to pursue further studies in the area of financial management in non-profit making organizations as it provides more information on financial management practices adopted by churches in Kenya and their effect on the quality of accountability in these churches.

1.5.2 To church treasury/treasurers

It is helpful to financial managers/treasurers of non-profit making organizations as it gives insight into the most basic financial management principles to be applied in order to run the organizations effectively and avoid losses through mismanagement and possible theft by members.

1.5.3 To the churches

The study provides information on how to effectively manage finances in churches thus avoid any misappropriation of funds. Churches also get an idea on what kind of businesses they can get involved in to supplement their income. Moreover they will gain insights on where to borrow incase of financial or cash crisis.
1.5.4 To the Government

The study gives insight on some of the businesses the churches involve themselves in. This information is useful and can be considered when coming up with policies on whether and how to tax these organizations.

1.6 Scope of the Study

The study was conducted within Nairobi. The research focused on friends’ churches that are situated in Nairobi. The location was appropriate because it is near the researcher hence data collection was a bit easy for the selected samples.

1.7 Delimitation and limitation of the Study

1.7.1. Availability of literature

There is little available literature on the subject of financial management in churches in Kenya; but the study was able to rely on literature on financial management practices of churches in other countries.

1.7.2. Respondents

Some respondents were unwilling to use their time to give out the information required in this study. After being informed of their ethical rights some changed their minds and filled the questionnaires voluntarily.
1.7.3. Generalization of the findings

The findings of this study may not be generalized to all the churches in Nairobi because the study focused on only one denomination. However the findings can be generalized to all churches from the friends' denominations.
CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. Introduction
This chapter deals with the review of books and literature written by other authors on financial management practices in non-profit making organizations and churches around the world in order to find out what has been done, where, when and by whom in this area of interest.

2.2. Theoretical Literature
This study intends to adopt Hofstede/Gray’s theoretical model on accounting values and practices the model to be specifically adopted is that of Uniformity Vs Flexibility which states as follows;

2.2.1 Uniformity Vs Flexibility
Uniformity in respect to accounting in the context of the cultural debate is a preference for the enforcement of uniform accounting practices, as opposed to flexibility in accordance with the perceived circumstances of individual companies (Gray, 1988). The disclosure of financial data in general purpose financial statements is a particular setting in which uniformity, or otherwise, is an issue.

To Gray, this accounting value dimension is very substantial because other attitudes such as consistency and comparability are incorporated as fundamental features of accounting principles worldwide. Gray reasoned that individualism and uncertainty avoidance are linked closely with
uniformity. Gray thereby links uniformity closely to uncertainty avoidance, because strong uncertainty avoidance is perceived by him to be linked with rigid codes of behavior, law, order and written rules and regulations, to avoid mistakes and unpredictable outcomes.

As a consequence, a large power distance society is deemed to facilitate uniformity by imposing laws and codes of a uniform character on that society.

2.3. Empirical Literature on Financial Management

Commora, Ezzamel (2006) in their study accounting and religion which was done by historical research found out that history of accounting in religion can be traced to the time of Christ with His twelve disciples. They recommend that furthering of accounting principles in churches should be done by looking at historical perspective in the bible (with God as initiator of accountability). They note in their study that management of finances was first noted in the church when Christ had the 12 disciples of whom Judas was the treasurer and hence a finance manager. Even after the ascension of Christ this continued with the early apostolic church. The church is an important institution in society; as such it is expected to be at the forefront in dealing with spiritual and contemporary issues of concern to society.

According to Eugene. Brigham, Ehrhardt (2008) financial management emerged as a distinct field of study at the turn of the 20th century. Its evolution may be divided into three broad phases – traditional phase, the transitional phase and the modern phase which is what preoccupy current financial management model.

Catherine (2006) conducted a study on internal control and accountability in non-profit organization using survey research, where her findings were that the greater potential in strengthening internal control lies in creating structures and environment, and she recommended
that any internal control need to be environment specific. She states in her article that there is nonetheless a more fundamental issues involved in non-profit management; the applicability of the business management model in the first place.

Significantly, conventional management approaches seem to operate from the assumption that non-profit organization has no bottom line. Because of a missing bottom line, non-profit organizations would be in greater need for management than for profit organizations, where performance is often easier to measure and monitor. On the other side it is noted that management challenge is not that non-profit organization have no bottom line at all, the problem is that they have several, and some would say “some times too many”. (Drucker, 2006)

Now financing come from diverse sources and control system with the complexity of corporate accounting, if not the exact terminology, report performance (Anthony 1980; Herzlinger and Sherman, 1980). While financial management moves from corporate to not - for profit management, the level of management expertise available for non-profit organization is generally more uneven than in the corporate world. But even within the Non-profit Organizations, another problem still exists when financial management in religious organization is observed for unique challenges are seen due to the fact that religious organizations are in most cases based on volunteer management, overlying sense of trust in a religious organization and finally most religious organizations are likely to receive cash with few expectations from donors concerning accountability.

Ellen Cook, the former treasurer of the Episcopal Church Center in New York City embezzled $2.2 million between 1990 and 1995. Cook was able to divert the money because she had control over auditing and, in violation of church policies, filled out check request forms and signed them herself (Staff, 1995 quoted in Duncan, 1998).
Traditionally, the internal control of assets in churches has been weak. As a result, approximately 15 per cent of all churches have been, are being, or will be victimized by an unscrupulous employee or member (Vargo, 1989, quoted in Duncan, 1998). Because of such increase in cases of financial misappropriation, Keister (1974) quoted in Duncan (1998) discussed the need for adequate systems of internal control for churches over 20 years ago.

Rahim (1998) conducted a study on inquiry of accounting practices in religious organizations using ethnography, he found out that separation between sacred and secular is not distinct in accounting practices and recommends that accounting principles should be championed more and more in religious organizations because of these similarities. Laughlin, 1988 quoted in Rahim, 1998, suggests that 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. One objective of any system of internal control is to safeguard assets from waste and fraud. This objective may appear foreign to churches that advocate the concepts of honesty, truthfulness, stewardship and mutual trust. Implying that staff members or volunteers might be deficient in one of these areas may result in disharmony and division, and ultimately damage the ministry of the church.

Pandey (1999) states that financial management is a term that denotes a wide range of activities that take place in an organization. Financial management may be defined as planning for the use of the financial and material resources of an organization, the acquisition, allocation, control, recording/reporting of such resources as well as a periodic evolution of these actions.

Non-profit organizations are a special type of organization recognized in law, usually private entities set up as corporation under a charter granted by a given state and regulated by that state.
non-profit corporation Act. They are specifically exempt from corporate taxes if they meet the requirements of tax code.

2.3 Similarities between non profit organizations and profit oriented organizations

There are many similarities between profit – oriented business enterprises and non-profit organizations (Financial accounting standards board, 1980; Freeman and Shoulders 1999). Some of these similarities are: both acquire external resources, both produce and distribute goods and services, both incur financial obligations, both must stay financially viable, both have limited pools of resources and resource providers and both may charge fees for the services they offer.

2.4 Characteristics of non-profit organization

Condler, Dummont (2010) conducted a study on accounting framework in non-profit sector, using survey research, they found that various organizations in the non-profit sector manifest different accounting practices, they recommended that more research should be done on the various characteristics and how they affect the quality of accountability in non-profit organization. In their study they argued that while there are many similarities between the two types of organization, non-profit human service organization differ from profit centered organization in many ways. Some of these differences are: non-profits meet socially useful needs, their clients are both inputs and outputs, they depend little on clients/consumers for revenue, they have a high proportion of non-routine events, their accountability, stewardship and tax treatment is different from that of for profit organizations.
2.5 Financial Management Principles in churches

Elmore, Wooten, Cooker (2003) conducted a study on Financial control in Religious organizations; a status report using survey research, they found that many non-profit organizations are increasingly accommodating financial management principles in their organizations and they further recommend that more studies need to done on the effectiveness of these principles in non-profit sector.

(Wuthnow, 1994 quoted by Elmore, Wooten, Cooker, 2003) argue that Despite the impact of religion on economic life in contemporary society Christianity or its tangible manifestation have received very limited attention in financial management.

The existing studies of accounting in religious institutions have revealed a consistent pattern of resistance to the logic of the accounting craft (Berry, 1985. Broadbent and Ezamel, 1994) this resistance was seen to be particular significant in church organization, due to the extreme impact of the transcendental nature of the ideology inherent in such entities on the application of the rationally underlying accounting practice (Booth, 1993 and 1995; Laughlin, 1984 and 1981. resistance to accounting in churches has generally been theorized to be caused by the existence of a sacred and secular divide within religious organization. Booth (1993) summarizes the significance of this concept to the study of accounting in church entities as follows;

“There is a fundamental separation in the belief of the church between spiritual issues (the sacred) and the systems used to support them (the secular). The former is dominant over the latter. Accounting is part of the secular and is consequently treated as irrelevant and secondary.”

While the dominance of the sacred is argued to be supported by all church participants (including the financial managers), this fundamental separation has been argued to have created ongoing
tensions between financial activities (the secular) and ministry and mission activities (the sacred) in all academic church accounting studies.

For example, laughling (1988) quoted by Duncan (1998) in a study to find out the internal control system in US churches using Survey research found out that internal control were different significantly according to size. He recommended that more research needs to be done on the effects of religious beliefs on the quality of systems of internal control in churches, explains that the purpose of accounting and financial activities is seen to be supply of resources to allow the (sacred) agenda to be fulfilled without disturbance but also acknowledge that churches faces a very practical problem of continuing to generalize sufficient resources such that they can avoid importing on the provision of sacred activities.

The Albeit rare studies of large Christian church organizations have presented a confusing picture of the experience of accounting and financial managers, who have been seen to be very focused on the bottom line (as secular professionals) rather than on the true work of the church (Bolten, 1980; booth, 1995; and Lovell, 1997). Previous studies on understanding role of financial manager in a church entity have revealed that there exists a conflict in trying to balance the two hostile agendas. Some of available accounting literatures typically have focused on the inadequacies of religious organizations financial control in comparison to for profit organization, the overcoming of these inadequacies and adoption of good accounting practices (Booth, 1993).

Generally, leaders of religious organizations lack a financial management background church leaders are selected for their spiritual leadership, not their financial management skills. Conway (1999) found in a survey of clergy knowledge on financial management found out that only 7 percent were extremely or very satisfied with their seminary training in financial duties, where over 80% were extremely or very satisfied with their duties or skills in the pastoral and
theological areas. Interestingly, 51 percent of the respondents were extremely or very satisfied with their personal skills in financial management, but this did not apparently carry over to the skills needed in their organization. He recommended that reasons need to be established why even after training the clergy were not satisfied with financial duties like as they were with pastoral duties.

According to Coker (2003), larger religious NPO’s have tended to show some relatively higher financial accountability than smaller organizations but the existence of such difference and the reasons for such difference are yet to be further studied. It is important to note that very little information exists in the NPO’s about their internal control. Inadequate internal control can hinder the management responsibilities of church offices and employees and place them in a position where they may be tempted to engage in questionable activities and accounting practices. This can explain why many cases of financial misappropriation have been reported even in our local churches of late.

Pastors of local congregations are in positions somewhat similar to chief executive officers who lead other types of NPO’s with the added responsibility of responding to the religious need of their congregations (Butler and Herman, 1999). A Pastor generally serves as the chief professional officer in most churches. Because of this role which pastor’s play it becomes difficult to have good financial management in local churches since most pastors don’t have good financial background.

2.5.1 Differences between Churches and other Non-Profit Organizations

Edward, (1990) as cited by Light Body, (1999), states that religious organizations attract volunteers and employees dedicated to the organization’s mission and hence a passionate belief
in the mission of the organization provides the required energy necessary to find and nurture financial management in any religious organization.

As Jage, et al (1999) notes, religious NPO’s differ from other NPO’s in that they are more dependent on individual donations, about 90% of their funds, than in foundational or corporate donations. They are less likely to rely on fundraising strategies than are non-religious NPO’s. Religious NPO’s also do not have to file many reports as other NPO’s. This has contributed to lack of information about religious NPO’s reporting and has made it difficult for researchers to assess financial management in religious NPO’s.

2.6. Principles of Financial Management

According to McKinney (2007) a good and effective financial management is based on the following important building blocks which are the principles of financial managements. Just like in profit making organizations financial management in non-profit organization is based on the same principles with the difference being that the context of application differs slightly. Four principles i.e. Record keeping, internal control, Budgeting and financial reporting form the basis of good financial management in non-profit organizations.

2.6.1. Financial Reporting

Keating, Frumkin (2003) conducted a Study on Non-profit reporting system using survey research, they found out that reporting system in non-profit sector needs to be reviewed by the Non-profit sector control board, they further recommended seven policy model for improving non-profit accounting and reporting.
According to (Murawski 1995; Stecklow 1997 and Greene 1999 as quoted by Keating, frumkim, (2003) over the past decade, concerns have been raised about the accountability of nonprofit organizations, particularly the adequacy of current reporting and oversight mechanisms. These concerns have escalated as major financial scandals have come to light, including embezzlement by the president of the United Way of America investment fraud by the Foundation for New Era Philanthropy (and theft by leaders of the Episcopal and Baptist churches.

According to Palmer, Randall (2006) until recently, financial reporting by non-profit organizations was of very little interest to most people. Including the accounting profession .the idea was that these organizations did “good works” that were unquantifiable and needed no justification. This along with the tendency of human service administrators to be poorly prepared in the financial aspects of non-profit management, led to a situation in which financial statements of non-profit organizations were often incomplete and misleading.

In the late 1980 the financial Accounting standard board (FASB) began working to review and revise the required financial statements of non-profit, to bring some uniformity in the variety of requirements for various types of non-profits, and to make them more understandable to intended users. However it is important to note that financial reporting has much to do with trying to give a picture of how are things going with the finances of your organizations? Is there enough financial strength to expand and add new programs? Financial reports' and financial ratios provide answers to these questions
2.6.2. Internal control

Duncan (1998) conducted a study of internal control system in US churches, using survey research, he found that internal control differ significantly according to church size and recommended that more research needs to be done to determine the effects of religious beliefs at the quality of internal control system, according to Duncan Cases of financial mismanagement in religious institutions have been reported worldwide as seen in the Wall Street Journal (1996) which reported that Roman Catholic priests and diocesan administrators embezzled more than $3.5 million from the Church during a three-year period. These thefts were attributed to “a lack of coherent outside auditing” and “a system that relies mainly on faith to control the flow of cash” (Fialka, 1995, quoted in Duncan 1998).

According to Raymond Sanchez (2004) controls are part of our everyday experience. Internal control and information processing methods are important to effective accounting. Internal control consists of the policies and procedures that are used to protect organization assets from improper use, maintain accurate information, and ensure law and regulation are adhered to. The processing methods used to collect summarized information and report accounting information may be manual or computerized. In small establishments, especially socially, oriented not for profit agencies, manager are reluctant to implement internal controls because of the feelings of trust and comaradene that exist among fellow workers. Although it may be proper to assume that all employees are honest, it is unfair to permit weaknesses in the internal system to tempt individuals toward dishonesty. When not for profit organization follow this guiding perspective, it is likely to prevent or minimize human error.

According to Zietlow, Hankin, Seidner (2008) Effective internal controls protect employees against unwanted allegations because they fix responsibility and remove the causes of
employee’s temptation. A strong internal control system is most helpful to the independent auditor. A sound internal control system invigorates procedures, minimizes avoidable errors, and preside a built in deterrence to easy temptation. Once a system of internal controls has been implemented, it requires monitoring to ensure that the objectives that were sought are being effectively achieved.

2.6.3. Budgeting

At the core of proficient financial management is the budget, a budget is a plan stated in monetary terms. The budgeting process is important because it allocates resources, in turn revealing the program preferences of the parties involved in budgeting. After the budget is developed a non-profit organization should use periodic reports to compare budgeted resources with actual revenues and budgeted expenses with actual expenses.

According to Zietlow, Hankin, Seidner (2008) the steps important in budgeting in non-profit organization include: Establishing a budget policy, gathering archival data, collecting data from different departments within the organization and setting the budgetary amount.

The budget director may assume responsibility for each of the four tasks, in smaller organization; he or she may perform each task himself.

2.6.4. Record keeping.

The other important aspect of financial managements is record keeping which is basically a record that describe you’re earning and spending, this mean contacts and letter for money that you receive and receipts and invoices for the things you buy. It is important to note that records can be kept in both hard and soft copy.
2.6.5. Liquidity management

According to Lucey (2003) the other important principle to be considered in non-profit financial management is liquidity management and according to him liquidity is the financial flexibility of the organization to argue its future cash flows.

According to Ruthgeb Smith, 1999 quoted by lucey, 2003 Non-profits organizations that do not have enough accessible financial resources may divert their attention from mission accomplishment to coping with financial pressures. Non-profits organizations try to deal with the chronic cash flow concerns by obtaining a line or credit or winning an increased line from their bank or gathering donations from individuals or grants from co-operative foundation.

2.7. Conceptual framework.

The main variables of this study include financial reports, internal control systems, Budgets and business records, these are the independent variables. Quality accountability is dependent on these variables. Intervening variables include political, legal and economic environment within which these organizations operate in.

The variables and how they affect each other are shown in the figure below.
Figure 2.1: Conceptual framework

Independent Variables

- **FINANCIAL REPORTS**
  - Timely
  - Accurate

- **INTERNAL CONTROL SYSTEM**
  - Authorization of payments, segregation of duties

- **BUDGET**
  - Prepared and used

- **BUSINESS RECORDS**
  - Properly kept and used

Dependent variable

**QUALITY OF ACCOUNTABILITY**

Source: Researcher 2012
3.0. RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes the study research procedures. It describes the study design, target population, sampling, data collection techniques and tools and methods of data analysis.

3.2 Research design

According to Kerlinger (1969) a research design refers to a strategy used by researcher in collecting and analyzing data in order to answer the research questions or test the research hypothesis. The researcher used descriptive sample survey design. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). The purpose of survey research is to describe part of the population (sample) on the basis of which data is collected, the collected data is analyzed, conclusions drawn and generalized for the entire population. The design saved time and labor since only part of the population was under study, reduced cost in terms of money and also broadened the scope of the study through estimation.

3.3 Target Population

According to Borg and Gall (1983), a target population refers to all members of a real or hypothetical set of people, events or objects which results if research is generalized. The study targeted 71 Friends’ churches located in Nairobi (Church register). Thirteen churches are monthly
meeting while fifty eight churches are local churches in the Friends’ denomination. The Monthly meeting churches oversee the activities of the local churches. Friends’ churches were chosen because they are familiar to the researcher and also they are among the denominations with many churches not only in Nairobi but also in Kenya as a whole. The choice of Nairobi as the area of study was due to convenience, knowledge and financial resources available to the researcher. The location chosen was ideal for the study since this is where majority of the churches in Kenya are located.

3.4 Sampling technique

Friends’ churches in Nairobi are diversely distributed. The location of these churches is as shown in the table below.

<table>
<thead>
<tr>
<th>Table 3.1: Sampling technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>MONTHLY MEETING CHURCHES</td>
</tr>
<tr>
<td>Friends church Ngong Road</td>
</tr>
<tr>
<td>Kibera Friends church</td>
</tr>
<tr>
<td>Kawangware Friends church</td>
</tr>
<tr>
<td>Langata Friends church</td>
</tr>
<tr>
<td>Ofafa Friends church</td>
</tr>
<tr>
<td>Kariokor Friends church</td>
</tr>
<tr>
<td>Kahawa Friends church</td>
</tr>
<tr>
<td>Ruiru Friends church</td>
</tr>
<tr>
<td>Buruburu Friends church</td>
</tr>
<tr>
<td>Thika Friends church</td>
</tr>
<tr>
<td>Makadara Friends church</td>
</tr>
<tr>
<td>Kabete Friends church</td>
</tr>
<tr>
<td>Kariobangi Friends church</td>
</tr>
</tbody>
</table>

Source: Church register
A sample of twenty five Friends churches was selected from different regions in Nairobi County. Stratified proportionate random sampling was applied where the number of monthly meeting churches and local churches in the sample was proportionate to that in the entire population. This helped ensure that the sample is a representative of the entire population. The sampling technique also saved time and reduced cost since only part of the population was under study.

In the churches purposive sampling was used to select a church member, church leader or treasurer as a respondent so as to easily check the completeness of the questionnaires.

3.5 Sample size

A sample of 25 churches was selected. Using Stratified Proportionate random sampling 18% i.e. 5 churches were monthly meeting churches in the Friends denomination and 82% i.e. 20 churches will be local churches in the Friends denomination.

3.6 Research instruments

The researcher collected data using questionnaires due to its ability to collect a large amount of information in a reasonably quick space of time, it is also economical than interviews. In addition, the respondents had adequate time to give well thought out answers. The questionnaires were mainly objective and structured type (Win Janssens, 2008). They consisted of issues concerning financial management practices in Friends churches in Nairobi County. The church members gave the researcher their views concerning their perception on financial management practices in their churches. Questionnaires consisted of a few open-ended questions so as to put respondents at ease; it also allowed previously unknown information to surface such as borrowing from Constituency Development Fund as alternative sources of income. (Black,
Despite of all these open-ended questions were time consuming during answering of questions since no options were given and were also difficult to summarize during coding. Majority of the questions were closed-ended questions so as to save time, (Manual, 1999) a major disadvantage was that some useful information might be overlooked. Some of the problems encountered in the field were lack of cooperation from the respondents as some refused to accept the questionnaires, some did not respond, they left the questionnaires blank and the difficulty in respondent understanding questionnaire.

3.7 Data type, data collection procedures and ethical issues

The Study relied upon primary data collected from church members from twenty five Friends churches in Nairobi County of Kenya since the project required conducting a survey and also because primary data was gathered specifically to solve problem at hand. Structured questionnaires were distributed to research participants who were given two weeks to fill the instruments and then the instruments were collected for analysis. The respondents were told of their ethical rights and a research assistant was trained not to go against the ethical issues pertaining collection of data and the rights of the respondents.

3.8 Data Analysis

Questionnaires were screened for accuracy and completeness by checking and making sure that all the questions touching the objectives were answered.

Code frames were prepared for the open-ended questions which were randomly coded by randomly selecting ten questionnaires from respondents.
Manual editing was done to ensure that the information was in the correct format for data entry. This included checks on the presence of missing response, leading zeros in quantity fields and full details of sample point.

Data was entered using SPSS version 20. The computer edit was a comprehensive data evaluation exercise that ensured the logical consistency of the information as well as completeness. Any discrepancies it revealed were checked by a research associate against the original questionnaire.

Using SPSS version 20, descriptive statistics were carried out for the various variables (i.e. both quantitative and qualitative). The various charts were drawn using Excel.
CHAPTER FOUR

4.0. DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter presents the findings of the study based on the data collected from the respondents in relation to the objectives of the study. The purpose of the study was to analyze the effect of financial management practices on the quality of accountability in Friends churches in Nairobi.

The quality of accountability was determined by the effectiveness of financial reporting, budgeting, record keeping and internal control systems in these organizations.

The objectives of this study were to:

i. Determine the financial management practices applied in Friends churches in Nairobi

ii. Assess how the financial management practices affect the quality of accountability in these churches.

iii. Suggest ways and means of adopting the best financial management practices in churches

The researcher used questionnaires to collect data from respondents. Data from closed ended questions was coded and analyzed by a computer using SPSS version 20 program. Data from open ended questions was summarized and described thematically.

Data received from respondents was analyzed and presented in form of tables, graphs and percentages.

The sample size under this study was 25 respondents, comprising of 5 respondents from monthly meeting and 20 respondents from local churches.
4.2. Response rate

A questionnaire with thirty questions was given to the respondents who were given two weeks to fill and return. Twenty five respondents took part in the research out of these twelve were treasurers, six church leaders and seven church members. Twenty of these respondents were from local churches and five from monthly meeting churches in Nairobi. Out of the 25 questionnaires given out 25 (100%) questionnaires were returned. Only 3 respondents left 2 questions incomplete. According to Nassiuma (2002) only a response rate above 35% is robust enough for statistical sensible analysis. This response rate was considered statistically sufficient for further analysis.

In this chapter the responses to the questions will be analyzed and the findings discussed.

The analysis was done under the following themes:

i. Profile of church and respondents.


iii. Financial planning in Friends church and its effect on accountability.

iv. Financial reporting in Friends church and its effect on accountability.

v. Record keeping in Friends church and its effect on accountability.

vi. Internal control in Friends church and its effect on accountability.

vii. Strategies to adopt to improve financial management in Friends churches in Nairobi.
4.3. Profile of church and respondents

For better understanding of the findings of the study it was important to have some background information of the church where the study was done and respondents who gave the data that was analyzed. The background information collected in the study is as shown below.

4.3.1 Type of church

Out of the 25 respondents, 5 respondents were from monthly meeting churches while 20 respondents were from local churches. A graph displaying a pie chart can be examined as below.

Figure 4.1: Type of church
4.3.2. Position in church

Twelve (48%) of the respondents are Treasurers in their churches, six (24%) are church leaders and seven (28%) are members of the church.

4.3.3. Number of members in church

Table 4.1: Number of members in church

<table>
<thead>
<tr>
<th>Members</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-60 members</td>
<td>8</td>
<td>32.0</td>
<td>32.0</td>
<td>32.0</td>
</tr>
<tr>
<td>Above 90 members</td>
<td>90</td>
<td>68.0</td>
<td>68.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
68% of the respondents churches have more than 90 members, the rest have 31-60 members. As shown in the table above.

4.3.4. Structure of the church

The structure of the respondents churches are either centralized with all decisions made at headquarters or Local with some decisions made at the headquarters. A graph displaying a pie chart can be examined as above.

4.4 Status of financial management in Friends church

The study found out that donation from members is the major source of income for these organizations, other sources include income generating activities and fundraising. Most of the income received by these churches is spent on salaries. Most of these churches have borrowed because of financial crisis, sources borrowed from include: Banks, Constituency development
fund, Savings and credit cooperative societies and donations from members. All the churches have reported cases of financial misappropriation. The responses given were analyzed as below.

4.4.1 Major source of income

The major source of income for the respondent’s churches is donations from members (80%) only 8% depend on income generating activities as their major source of income. A graph displaying a bar graph can be examined as below.

**Figure 4.4: Major source of income**

![Bar graph showing major sources of income](image)

4.4.2 Other source of income apart from

Out of the 25 churches 11 (46%) of the respondents churches generate extra income form income generating activities 18 churches practice small scale farming 2 are involved in public
transport sector, another 2 hire their hall and only one generates extra income from fundraising.

A graph displaying a bar graph can be examined as below.

**Figure 4.5: Other source of income**

In 18 (69%) of the respondents churches the major expenses are salaries, the rest 31% of the churches major expenses go to evangelism / mission. A graph displaying a pie chart can be examined as below.
Figure 4.6: Major expense

4.4.4. Sources borrowed from

Because of financial/cash crisis 15% of the churches have borrowed from the bank, 2 from CDF another 2 from SACCOS and 6 from members (donations)

A graph displaying a bar graph can be examined as below
4.4.5 Rating of financial management in church

95% of the respondents rate the financial management of their church as very good. The rest 5% rate it as good.

A graph displaying a pie chart can be examined as below
4.5 Financial planning in friends church and effect on accountability

4.5.1 Strategic plan

The research found out that all the respondents’ churches had a strategic plan that includes financial planning.

4.5.2 Budgeting

All the respondent churches have a budget for their annual operations. All respondents as church members have participated in passing of their church budget. 76% of church budget of respondents over the past one or two years are rated very successful, the rest are rated moderately successful. A graph displaying a pie chart can be examined as below.
The presence of a budget makes the finance manager to be more accountable. Spending will be based on what has been budgeted there may only be a few differences. If the actual expenses are more than the budgeted expenses then the finance manager is answerable to members. Since the target of the budget of these churches are rated successful then budgeting is taken seriously in the management of funds by these organizations.

4.6 Financial reporting in friends church and its effect on accountability

4.6.1 Presentation of financial statements

The study found out that all the respondents have witnessed financial statements being read in their churches. Financial reports are evidence of accountability. Preparation of these statements and presenting them to members shows that the finance manager is answerable to members. When members are presented with this statements they are able to
know how their money was spent, It is also an opportunity for them to question any wrong spending and direct the management on where and how to spend.

4.6.2 Preparation of financial statements

The study found out that all the respondents’ churches prepare their financial statements annually as opposed to semi annually or quarterly.

One characteristics of a good reporting system is that it provides information needed by users on an accurate and timely basis. Waiting for a period of one year is not the best thing to do, instead the churches should prepare interim statements and present them to members. This will act as evidence of accountability in the part of the finance manager, moreover members and other stakeholders will be able to know the financial position of these organizations and take any corrective action (if needed) in good time.

4.7 Record keeping in friends church and its effect on accountability

In many organizations book-keeping records play a very important role. The summarized book keeping records are normally used in analyzing and interpreting the financial performance of these organizations. Documents such as receipts, vouchers, cheques and invoices serve as evidence that a transaction has taken place.

The study found out that the churches make use of these documents. Friends’ churches also make use of a ledger book, and most of them prefer keeping their records in both hard and soft copy.
4.7.1 Documents used

The respondents were asked whether they use receipts, vouchers, cheques or invoices in the daily financial operations of their church.

The responses are shown in the table below

<table>
<thead>
<tr>
<th>Document</th>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid percent</th>
<th>Cumulative percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Receipts</td>
<td>Yes</td>
<td>25</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2. Vouchers</td>
<td>Yes</td>
<td>25</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>3. Cheque</td>
<td>Yes</td>
<td>24</td>
<td>96</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>25</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>4. Invoices</td>
<td>Yes</td>
<td>23</td>
<td>92</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>2</td>
<td>8</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>25</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

All the twenty five churches use receipts and vouchers, 24 churches use a cheque and 23 of them make use of an invoice in their daily financial operations. This information is shown in the table above.

Persons who spend finances in these churches are made more accountable because they have to produce this document as proof that they actually spent the money as required.
4.7.3 Ledger book
Out of the 25 churches 24 (96%) of all the churches have a ledger book. Only 1 church does not have a ledger book. A graph displaying a pie chart can be examined as below

Figure 4.10: Ledger book

4.7.4 Church records
Out of the responses obtained 67% of the respondent’s churches prefer keeping their records in both soft and hard copies. 16% prefer soft copy and 17% prefer hard copy alone. A graph displaying a pie chart can be examined as below

Figure 4.11: Church records
4.8 Internal control

Internal control consists of policies and procedures that are used to protect organizations assets from improper use, maintain accurate information and ensure law and regulation are adhered to. Effective internal controls fix responsibility and thus promote accountability.

Internal control involves aspects such as authorizations of payments, auditing and segregation of duties to allow for checks and balances. The study found out that payment is authorized in Friends churches. Auditing is also done by these churches, most of them audit their financial statements annually.

4.8.1 Authorization of payment

The study found out that all the respondents' churches need three signatures before any payment is effected as shown in the table above. The respondents were asked how many signatures are needed before payment is effected in their churches their response is analyzed in the table below
Table 4.3: Authorization of payment

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three</td>
<td>25</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Persons involved in the management of funds in these churches are made accountable incase money is spend unwisely the three are answerable.

4.8.2 Auditing

The study found out that all the respondents’ churches have their financial statements audited. Majority (92%) audit their financial statements annually, 4% audit semi annually, and another 4% audit them quarterly. A graph displaying a pie chart can be examined as below
Waiting for a period of one year before carrying out an audit may be detrimental to this organization because any irregularity or misuse of funds might not be discovered or if discovered it might be too late to take any corrective measures. To make the finance manager more accountable the financial statements should be audited more frequently this can be done by an internal auditor or by a finance committee.

4.8.3 Chief controller of finance

The chief controller of finance in most of the churches is the treasurer. A finance commission controls revenue in only 12% of the respondents’ churches. A graph displaying a pie chart can be examined as below.
Figure 4.13: Chief controller of finance

Finance commission 12%
Treasurer 88%

4.9 Strategies to adopt to improve financial management in Friends church

More than half (14) respondents would like to see internal control improved to improve financial management in their churches. 6 respondents would like to have timely financial reporting, 3 would like their churches to eliminate volunteers and employ qualified finance personnel. Only 2 would like budgeting to be improved in order to improve financial management in their churches. A graph displaying a bar graph can be examined as below.
Figure 4.14: Strategies to adopt to improve financial management

- Improve internal records
- Timely financial reporting
- Eliminating volunteers and using qualified financial personnel
- Improved budgeting

What to be done
5.0. Summary, Conclusions and Recommendations

5.1 Introduction

This chapter presents the summary, conclusions recommendations and suggestions for future research flowing from the analysis of the financial management practices of Friends churches in Nairobi.

5.2 Summary

5.2.1 Institutional profile

Most of the churches under this study were local churches, majority of which have above 90 members. The churches are either centralized with all decisions made at headquarters or local with some decisions made at the headquarters. Respondents comprised of church leaders, treasurers and church members.

All the respondents', churches have reported cases of financial misappropriation, although 95% of the respondents’ rate the financial management of their churches as very good and 5% rate it as good.

5.2.2 Status of financial management in Friends church

Although most of the respondents rate the financial management of their churches as very good. There is a lot to be desired since all of these organizations have borrowed because of financial crisis and also all of them have reported cases of misappropriation of funds.
5.2.3 Financial planning in friends church and its effect on accountability

The churches under study have a strategic plan that includes financial planning. They do budgeting and in their budgeting formulation process members/departments are involved.

Although more than half (76%) of the respondents rate the target of their church budget over the past one or two years as very successful, all the churches have borrowed because of financial/cash crisis.

Financial planning or Budgeting promotes accountability. With a budget in place the churches are able to compare budgeted resources with actual revenues and budgeted expenses with actual expenses and take any required measurers incase of a big variance .this makes the people who manage the church finances to be more accountable because they will spend the resources that they have wisely.

5.2.4 Financial reporting in friends church and its effect on accountability

Financial reports are evidences of accountability. Although all the churches prepare financial statements quality of accountability may be compromised by the fact that financial reports in all of these churches are prepared annually. One characteristic of a good reporting system is that it provides information needed by users on an accurate and timely basis. No user will be happy to stay for a whole year before knowing the financial position of the organization which he/she is interested in. To ensure increased quality of accountability of the finance manager these reports should be prepared at least quarterly.
5.2.5. Record keeping in friends church and its effect on accountability

All the churches studied make use of business records. Documents like receipts, vouchers, invoices and cheques serves as evidence that the transaction that has been recorded actually took place. Any person who spends church finances is made accountable because he has to produce this document as proof that he actually spent the money as required.

5.2.6. Internal control in friends' church and its effect on accountability

Persons involved in the management of funds in Friends church are made to be accountable since before any payment is made three signatures are needed for the payment to be effected. Incase money is spent unwisely the three are made answerable.

Auditing is another aspect of internal control. Although most of the churches audit their financial statements, the shortest time within which they do this is quarterly and only 4% of the churches studied do it quarterly. Waiting for a period of one year before carrying out an audit is not advisable because any irregularity or misuse of funds might not be discovered and if discovered it might be too late to take any corrective measure. To make the finance manager more accountable the financial statements ought to be audited regularly, this can be done by an internal auditor or a finance committee.
5.2.7. Strategies to adopt to improve financial management in Friends church in Nairobi

To improve financial management in their churches, More than half (56%) of the respondents would like to see improved internal controls. This can be done by segregating duties and carrying out frequent audits.

Some respondents (24%) would like to have timely financial reporting, instead of waiting for a year before presenting the financial statements, the churches should present the statements quarterly. The churches should also employ qualified financial personnel, as suggested by 12% of the respondents and also improve their budgeting so as to avoid borrowing because of financial crisis.

5.3. Conclusion

Most of the churches under study have a treasurer as the chief controller of revenue. Although the main source of revenue is donation from members most of these churches involve themselves in other business activities. The greatest percentage of the revenue received goes to salaries. Most of them have put in place basic financial management practices the most common being financial planning, budgeting and financial report. In all the Friends churches studied financial reporting is done annually as opposed to semi annually or quarterly, budgets are prepared and all of them make use of business records. The records are kept in both soft and hard copies by majority of the churches. The greatest challenge these churches face is how to improve their internal control system.
5.4 Recommendations

The following recommendations would be suggested from the analysis and conclusions presented from the previous section;

Timely financial reporting will help improve the quality of accountability. Instead of presenting their financial statements annually they should present them quarterly.

Revenue should be controlled by more than one person and duties segregated to allow for checks and balances hence strengthen the internal control system. Periodic audits should also be carried out by an internal auditor or by a finance committee.

After the budget is developed the churches should use periodic reports to compare budgeted resources with actual revenue and budgeted expenses with actual expenses, this will aid discover any big variances and take corrective measures thus avoid falling into cash crisis.

To minimize incidences of misappropriation of funds, any income received should be banked promptly; Proper books of Accounts should be maintained including a petty cash book for small expenditures all expenditure should be receipted and the record kept.

5.5. Suggestions for further research

This study determined the financial management practices applied by friends churches and their effect on the quality of accountability. Apart from the basic financial practices of financial reporting, budgeting, record keeping and internal control a study should be done to determine which other financial practices are applied in these churches. Although all the churches studied had a finance manager/treasurer, this study did not determine whether the treasurer had the required knowledge or skills to carry out his/her duties effectively.
All the churches studied had reported cases of financial misappropriation, a study ought to be carried out to determine the causes of the misappropriation of funds in these organizations.
REFERENCES


Smith, M L and J R Miller. ((1989)). "An internal Audit of a Church,". *Internal auditing journal* vol 5.


Dear Respondent,

This questionnaire has been prepared as a main component of study to analyze the financial management practices applied by churches in Nairobi and how these practices affect the quality of accountability. The study will also be aiming at finding out how best we can apply financial management practices in our local churches.

I request you to spare a few minutes of your precious time to complete this questionnaire.

Your response will be treated with total confidentiality and will be used only for academic purposes.

Thank you.
Appendix 11: Questionnaire

Please fill in to the best of your knowledge. Tick where appropriate

RESPONDENTS DEMOGRAPHIC INFORMATION

1. Type of church ........................................

2. What is your position in the church?
   - church leader  [ ]
   - treasurer  [ ]
   - church member  [ ]

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3. How many members does your church have?
   (a) Below 30  [ ]
   (b) 31-60 members  [ ]
   (c) 61-90 members  [ ]
   (d) Above 90 members  [ ]

4. What is the approximate number of congregation of your church in the country? .............

5. How would you describe the structure of your church?
   (a) Local with all decisions made at the local church  [ ]
   (b) Local but some decisions made at the headquarters  [ ]
   (c) Centralized with all decisions made at the headquarters  [ ]
   (d) Other (please specify)  [ ]

6. Does your church have other sources of income apart from Sunday collection and Donations from members?
   (a) Yes  [ ] (please specify) ............................. (b) No  [ ]
7. What is the major source of revenue for your church?
   (a) Donation from members [ ]
   (b) Gifts/Grants [ ]
   (c) Investments. [ ]
   (d) Others (please specify) ........................................................................

8. Who is the chief controller of revenue/finances in your church?
   (a) Treasurer [ ]
   (b) Church pastor/Elders [ ]
   (c) Church board [ ]
   (d) Other (please specify) ........................................................................

9. What are major expenses of your church?
   (a) Salaries [ ]
   (b) Evangelism/mission [ ]
   (c) Investments [ ]
   (d) Equipments [ ]
   (e) Others ...................................................................................................

10. Do you have any strategic plan in your church?
    (a) Yes [ ] (b) No [ ]

11. If yes, in above question does your strategic plan include financial planning too?
    (a) Yes [ ] (b) No [ ]

12. Do you have a financial manager/treasurer in your church?
    (a) Yes [ ] (b) No [ ]
13. In the daily financial operations of your church do you use any of the following, tick where appropriate?

- Yes
- No

(a) Receipt
(b) Vouchers
(c) Cheque
(d) Invoices

14. Before any payments is made in your church how many signature(s) are needed for the payment to be effected?

(a) One
(b) Two
(c) Three
(d) None

15. Does your church ever have a budget for its annual operations?

(a) Yes
(b) No

16. If yes have you ever participated as an individual or as a department in its formulation?

(a) Yes
(b) No

17. On a success rate how would you rate the targets in your church budgets over the past one or two years?

(a) Very successful
(b) Moderately successful
(c) Least successful
(d) Not successful
18. Have you as a church member ever participated in passing of any budget in your church?
(a) Yes [ ]  (b) No [ ]  (c) None [ ]

19. Does your church have a ledger book?
(a) Yes [ ]  (b) No [ ]

20. Have you ever witnessed financial statements being presented in your church?
(a) Yes [ ]  (b) No [ ]  (c) None [ ]

21. How often are your church financial statements prepared?
   (a) Annually
   (b) Semi annually
   (c) Quarterly
   (d) Others (specify)

22. Are your financial statements audited?
   (a) Yes [ ]  (b) No [ ]

23. If yes in above question, how often are they audited?
   (a) Annually
   (b) Semi annually
   (c) Quarterly
   (d) Others (specify)

24. Have cases of financial misappropriation ever been reported in your church?
   (a) Yes [ ]  (b) No [ ]

25. Have you ever borrowed because of financial / cash crisis?
   (a) Yes [ ]  (b) No [ ]
26. If yes from which sources have you ever borrowed from?

(a) Bank [ ]
(b) Donations from members [ ]
(c) Grants from mother church or donors [ ]
(d) Others (please specify) ...........................................

27. In your own rating how would you rate the financial management of your church?

(a) Very good [ ]
(b) Good [ ]
(c) Bad [ ]
(d) Worse [ ]

28. How many workers has your church employed to deal with financial matters?

(a) None [ ] (b) One [ ] (c) Two [ ] (d) Others (please specify) ...........

29. What would you like to see done to improve financial management in your church?

(a) Improve internal controls [ ]
(b) Improved budgeting [ ]
(c) Timely financial reporting [ ]
(d) Eliminating volunteers and using qualified financial personnel [ ]
(e) Others (please specify) ...........................................................

Thanks and may God bless you