

# Control Environment, Risks Assessment, Control Activities And Financial Accountability In Pentecostal Churches: Evidence Of Lira Municipality

Okello Apollo

Lecturer Department of Accounting and Finance,  
Uganda Martyrs University, Lira, Uganda

**Abstract:** *The study was to examine the relationship between Control Environment, Risks Assessment, Control Activities and Financial Accountability in Pentecostal Churches: Evidenced of Lira Municipality. The sample size was 135 composed of church administrator; staff of church projects and elders of selected Pentecostal churches in Lira Municipality. The adopted a Cross sectional design. Data was analyzed using IBM statistical package for social scientists (SPSS) version 20 for Windows. The study revealed a positive and significant relationship between control environment and financial accountability, there is a relationship between risks assessment and financial accountability and there is a relationship between control activities and financial accountability in Pentecostal churches. The study therefore recommend that Pentecostal churches need to make her control environment (integrity and ethics of management, competence of employees, operating style of management, structure and Audit committee and evaluation of the environment), risk assessment (identification and analysis of relevant risks) and control activities (policies and procedures that help ensure that management directives are carried out) strong since it is key in financial accountability of churches.*

**Keywords:** *Control Environment, Risks Assessment, Control Activities, Financial Accountability*

## I. BACKGROUND OF THE STUDY

The increase in the number of Pentecostal members and church in the world cannot be undermined Uganda and Lira not an exception, currently being estimated at 2.3 billion with the main objectives spiritual and moral development of its members (Pew Research Centre, 2017). To fulfil its objectives, the church receives funds members inform of offertory, tithe, gifts, and donation amongst others (Mitchell, 2015).

The financial resources received by these Pentecostal churches need to account for the use of funds to the funding sources (Akotia, 2019). The Pentecostal Churches activities, together with the limited financial resources calls for attention to financial management especially internal control (Richard, 2015). Internal control is a process that guides an organization towards achieving its objectives. These objectives include operation efficiency and effectiveness, reliability of financial

reporting and compliance with relevant laws and regulations (COSO, 2013). Internal control system of an organization is a policy, procedure that is established to ensure that enterprise' related goals and objectives will be achieved (Amudo & Inanga, 2009). Internal controls are basically systems of checks and balances (Jokipii, 2010).

COSO identifies essential components of an effective internal control system as: control environment, risk assessment, control activities, procedures and practices that ensure that management objectives are achieved and risk mitigation strategies implemented, information and communication, and monitoring (COSO, 2013). Therefore, in every organization, business or government, churches, size notwithstanding, they must have effective internal control system so as to protect it from possible losses of organizational resources (Akotia, 2019).

#### A. STATEMENT OF THE PROBLEM

In Pentecostal churches today call them charismatic churches, despite the many favourable attributes; the Pentecostal church has been engaged in many financial scandals. Centre for the Study of Global Christianity (2015) has estimated \$50 billion of funds from Christians was not accounted for with about \$1.3 billion perpetrated in Africa and therefore many Pentecostal church members are increasingly calling upon their churches most especially, the governing body of the church for financial accountability and transparency. Church members want to know, and have a right to know, how and where church funds are expended. The irregularities like fraud and embezzlement have been linked to weak internal system. Internal control system being control environment, risk assessment, control activities, procedures and practices that ensure that management objectives are achieved and risk mitigation strategies implemented, information and communication, and monitoring (COSO, 2013). The study therefore focused on Control Environment, Risks Assessment, Control Activities and Financial Accountability in Pentecostal Churches: Evidence of Lira Municipality.

#### RESEARCH QUESTIONS

The study was guided by the following research question:

- ✓ What is the relationship between control environments and financial accountability in Pentecostal Churches?
- ✓ What is the relationship between risks assessment and financial accountability in Pentecostal Churches?
- ✓ What is the relationship between control activities and financial accountability in Pentecostal Churches?

#### B. HYPOTHESIS OF THE STUDY

The research was based on the following null hypothesis;

- ✓  $H_0$ : There is no relationship between control environments and financial accountability in Pentecostal Churches
- ✓  $H_0$ : There is no relationship between risks assessment and financial accountability in Pentecostal Churches
- ✓  $H_0$ : There is no relationship between control activities and financial accountability in Pentecostal Churches

#### C. SCOPE OF THE STUDY

The study was on Control Environment, Risks Assessment and Control Activities being the independent variables and Financial Accountability being the dependent variable. The researcher considered time of data collection to be enough to measure the relationship between the relationship between control environments and financial accountability, the relationship between risks assessment and financial accountability and the relationship between control activities and financial accountability in selected Pentecostal Churches in Lira Municipality.

#### D. LIMITATION OF THE STUDY

There is no study without limitation this on control environment, risks assessment, control activities and financial accountability inclusive though it provides some interesting findings and makes important contributions to control environment, risks assessment, control activities and financial accountability literature. The study was quantitative in nature and based on cross sectional survey design. The use of longitudinal studies and qualitative data coupled with interviews could provide more insights.

### II. LITERATURE REVIEW

#### A. CONTROL ENVIRONMENT AND FINANCIAL ACCOUNTABILITY

According to Pricewaterhousecoopers (2011) control environment is the tone set by top management and the overall attitude, awareness and actions of the board of directors, management, and owners. COSO (2013) makes it clear that the control environment is the most important component of internal control. Eko & Hariyanto (2011) identifies attributes of control environment as integrity and ethics of management, competence of employees, operating style of management, structure and Audit committee and evaluation of the environment.

According to Schaefer et al (2010) managers and internal auditors need to understand the status of the factors at the base (control environment), not to change them, but to consider their impact on the other control components for they have impact on the financial accountability. In another study, it was revealed that control environment is positively related to financial accountability (Mugo, 2014; Feyisayo & Odunayo, 2018).

#### B. RISK ASSESSMENT AND FINANCIAL ACCOUNTABILITY

Risk is a possibility that managers experience adverse consequences from decisions made in face of uncertainty interfering with achievement of objectives or not successfully exploit opportunities that become available (Sanusi & Mustapha, 2015). According to COSO (2013), Financial Management risk in any organization is the probability that public financial management systems will not provide appropriate management of all public funds. Risk covers all aspects of organizational activities and is included in all management levels (COSO, 1992). Risk management therefore is a fundamental element of cooperate governance which demands that boards respond to new challenges, by putting in place measures to systematically and thoroughly identify, analyze and control risks which calls for risk assessment (COSO, 1992).

Risk assessment as stated by Pricewaterhousecoopers (2011) is the entity's identification and analysis of relevant risks (both internal and external) to the achievement of its objectives, forming a basis for determining how the risk should be managed. This assertion is in consistence with

observations of COSO (1992). According to Flick (2010) the need for organizations to move to a risk based audit approach has called for risk assessment decisions to help relate the cost/benefit analysis of the control to the known risk hence financial accountability. Mugo (2014) further emphasized that risk assessment in an organization is very important because it relates to financial accountability. Other studies also confirm that there is significant relationship between risk assessment and financial accountability (Ndifon & Patrick, 2014, Thornhil.T & Zuckerman.J, 2000).

### C. CONTROL ACTIVITIES AND FINANCIAL ACCOUNTABILITY

Pricewaterhousecoopers (2011) also mention Control activities as another component of Internal controls. They noted that control activities are policies and procedures that help ensure that management directives are carried out. They continue that controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end). While ACCA (2004) stipulated that control activities are policies and procedure that are formulated by management so as to ensure that the organizational activities are carried out effectively with the aim of achieving goals. Study by Feyisayo (2018) states that control activities has a significant relationship with financial accountability.

## III. METHODOLOGY

### A. RESEARCH DESIGN

The adopted a Cross sectional design because it enables the study to be completed within short time. Quantitative approach was also used to analyze primary data from the field with focus on drawing inferences on the findings on the relationship between control environment, risks assessment, control activities and financial accountability. The research study also used correlation design to establish relation between control environment, risks assessment, control activities and financial accountability.

### B. STUDY POPULATION, SAMPLE SIZE AND PROCEDURES

The study population was 260, composed of church administrator; staff of church projects and elders of selected Pentecostal churches in Lira Municipality (Thornhil.T & Zuckerman.J, 2000) and 135 respondents was considered (Krejcie & Morgan, 1970). Convenient sampling procedure was used.

### C. DATA COLLECTION INSTRUMENTS

Self administered questionnaire on a five-point likert scale of 5“Strongly Disagree”, 4“Disagree”, 3“Not Sure”, 2“Agree” and 1“Strongly Agree” was used because it enables the researcher to collect a large amount of data from the respondents within a short time.

### D. DATA QUALITY CONTROL

The researcher pretested and validated the data collection instrument using 10 church project staff where were not part of the main study to ensure the clarity and relevance of data collection instruments and inappropriate questions were revised valid since the contentment value index (CVI) was equal to 0.80 greater than 0.6. The instrument was tested for the reliability of values (Alpha values) as recommended by Cronbatch (Cronbach, 1946). A Conbach Alpha (0.87) greater than 0.7 proved reliability (Amin, 2005).

### E. DATA ANALYSIS

Data collected was checked and edited for completeness and accuracy. The data was then analyzed using IBM statistical package for social scientists (SPSS) version 20 for Windows. The researcher then used Pearson’s correlation matrix to establish the strength of linear relationships between control environment, risks assessment, control activities and financial accountability. The hypothesis was tested using P-Value of Pearson Coefficient Correlation at 0.05 significant levels. A Multiple linear regression model will be used to determine variance in the financial accountability that was explained by control environment, risks assessment and control activities

## IV. RESULTS AND DISCUSSION

### A. RELATIONSHIP BETWEEN CONTROL ENVIRONMENTS AND FINANCIAL ACCOUNTABILITY IN PENTECOSTAL CHURCHES

The first objective was to establish the relationship between control environments and financial accountability. This objective was analyzed using Pearson’s correlation matrix to establish the strength of linear relationships between control environments and financial accountability. The results in table 1 below the Pearson (r) coefficients for the variable and these were control environments and financial accountability.

r	.696**
P -Value	.000
N	135

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

Table 1: Relationship between Control Environments and Financial Accountability

From the table 1 above, the study reveal that there is positive and significant relationship between control environments and financial accountability (r = 0.696\*\*,

P=.000). This can be argued that for good financial accountability to be realized in Pentecostal Churches there must be good control environment. The top management argued that the overall attitude, awareness and actions of the board of directors for Pentecostal Churches has an impact on the financial accountability of Churches, this is agreement with Pricewaterhousecoopers (2011). In another study, it was revealed that control environment is positively related to financial accountability (Mugo, 2014; Feyisayo & Odunayo, 2018) which is in agreement with the findings.

#### B. RELATIONSHIP BETWEEN RISKS ASSESSMENT AND FINANCIAL ACCOUNTABILITY IN PENTECOSTAL CHURCHES

The second objective was to establish the relationship between risks assessment and financial accountability. This objective was analyzed using Pearson's correlation matrix to establish the strength of linear relationships between risks assessment and financial accountability. The results in table 2 below the Pearson (r) coefficients for the variable and these were risks assessment and financial accountability.

r	.409**
P -Value	.000
N	135

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

Table 2: Relationship between Risk Assessment and Financial Accountability

From the table 2 above, the study reveal that there is relationship though not strong between risks assessment and financial accountability ( $r = 0.409^{**}$ ,  $P=.000$ ). This can be argued that for good financial accountability to be realized in Pentecostal Churches there must be risks assessment.

According to Mugo (2014) further emphasized that risk assessment in an organization is very important because it relates to financial accountability which is in line with the current findings. Other studies also confirm that there is significant relationship between risk assessment and financial accountability (Ndifon & Patrick, 2014, Thornhil.T & Zuckerman.J, 2000)

#### C. RELATIONSHIP BETWEEN CONTROL ACTIVITIES AND FINANCIAL ACCOUNTABILITY IN PENTECOSTAL CHURCHES

The third objective was to establish the relationship between control activities and financial accountability. This objective was analyzed using Pearson's correlation matrix to establish the strength of linear relationships between control activities and financial accountability. The results in table 3 below the Pearson (r) coefficients for the variable and these were control activities and financial accountability.

r	.571**
P -Value	.000
N	135

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

Table 3: Relationship between Control Activities and Financial Accountability

From the table 2 above, the study reveal that there is relationship though not strong between control activities and financial accountability ( $r = 0.571^{**}$ ,  $P=.000$ ). This can be argued that for good financial accountability to be realized in Pentecostal Churches there must be good control activities. This is in agreement with study by Feyisayo (2018) which stated that control activities have a significant relationship with financial accountability.

#### D. EXTENT OF CONTROL ENVIRONMENT, RISKS ASSESSMENT, CONTROL ACTIVITIES AND FINANCIAL ACCOUNTABILITY IN PENTECOSTAL CHURCHES

Multiple regression analysis revealed the extent to which control environment, risks assessment and control activities determine the nature of financial accountability in Pentecostal Churches as shown below;

Model	Unstandardized Coefficient B	Std. error	Standardized Coefficient Beta	T	Sig.
(Constant)	-.640	.662		-.967	.335
Control Environment	.576	.094	.472	6.11	.000
Risks Assessment	.277	.151	.128	1.83	.069
Control Activities	.570	.160	.294	3.57	.000

a. Dependent Variable: Financial Accountability

Source: Primary Data

Table 4: Multiple Regression Analysis

Multiple regressions model takes the form of an equation that contains a coefficient (b) for each independent variable. The first part of the table above gives us estimates for b values indicating individual contribution of each of the independent variables to the model. The beta value in the table above tells us about the relationship between independent variables and dependent variable.

The results therefore in above table 4 indicated that control environment and control activities explain 54% of the variance in effective financial accountability (Adjusted R Square = .540). The table further reveals that control environment is a better predictor of effective financial accountability than all the rest of the variables (Beta = .472, Sig. <.01). The regression model was noted therefore to be significant (sig. <.01).

#### E. TESTING HYPOTHESIS

✓  $H_0$ : There is no relationship between control environments and financial accountability in Pentecostal Churches

This null hypothesis was tested using the p – value, where if the p – value is less than the level of significance, then the null hypothesis is rejected. The null Hypothesis that there is no relationship between relationship between control environments and financial accountability was rejected because the p – value of 0.000 was less than the level of significance of 0.05 as per table 1. The alternative hypothesis that there is a significant relationship between relationship between control environments and financial accountability is adopted.



- ✓  $H_0$ : There is no relationship between risks assessment and financial accountability in Pentecostal Churches

This null hypothesis was tested using the p – value, where if the p – value is less than the level of significance, then the null hypothesis is rejected. The null Hypothesis that there is no relationship between risks assessment and financial accountability was rejected because the p – value of 0.000 was less than the level of significance of 0.05. The alternative hypothesis that there is a significant relationship between relationship between risks assessment and financial accountability is adopted.

- ✓  $H_0$ : There is no relationship between control activities and financial accountability in Pentecostal Churches

This null hypothesis was tested using the p – value, where if the p – value is less than the level of significance, then the null hypothesis is rejected. The null Hypothesis that there is no relationship between control activities and financial accountability was rejected because the p – value of 0.000 was less than the level of significance of 0.05. The alternative hypothesis that there is a significant relationship between relationship between control activities and financial accountability is adopted.

## V. CONCLUSION

The study was meant to establish the relationship between control environment and financial accountability in Pentecostal churches. The study revealed a positive and significant relationship between control environment and financial accountability in Pentecostal churches. The study was also meant to establish the relationship between risks assessment and financial accountability in Pentecostal churches. The study revealed that there is relationship between risks assessment and financial accountability in Pentecostal churches and finally the study was also meant to establish the relationship between control activities and financial accountability in Pentecostal churches. The study revealed that there is relationship between control activities and financial accountability in Pentecostal churches. It can therefore be concluded that for good financial accountability to take place in Pentecostal churches, there must be good control environment coupled with risk assessment and good control activities.

## VI. RECOMMENDATIONS

Since from the study there is positive and significant relationship between control environments and financial accountability, there is relationship between risks assessment and financial accountability and there is relationship between control activities and financial accountability, Pentecostal churches need to make her control environment (integrity and ethics of management, competence of employees, operating style of management, structure and Audit committee and evaluation of the environment), risk assessment (identification and analysis of relevant risks) and control activities (policies and procedures that help ensure that management directives

are carried out) strong since it is key in financial accountability of churches.

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