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**Addis Ababa University**  
**Department of Accounting and Finance**

**Financial Management Practice of church: The case of the  
Ethiopian Evangelical Church Mekane Yesus**

**By**  
**Gemechis Matewos**

**A Thesis Submitted to the Department of Accounting and Finance of Addis Ababa  
University in Partial Fulfillment of the Requirements for the Degree of Master of Science in  
Accounting and Finance.**

*January, 2018*  
*Addis Ababa, Ethiopia*

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**Advisor:**  
**Abebaw Kassie (PhD)**

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**Statement of Declaration**

I, the undersigned, declare that this thesis is my original work and all sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

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## **Acknowledgements**

I would like first to thank the Almighty God, the source of my strength, courage, patience and wisdom to complete my study successfully.

My most sincere and heartfelt thanks go to Dr. Abebaw Kassie, my advisor, for his unreserved scholarly support. Similarly my sincere gratitude should also go to my late father Ato Matewos Ababte, and my mother W/o Daktu Taye who encouraged and advised me to continue my further studies confronting challenges of life; they deserves my all special thanks.

I would like to express my debt to all the Ethiopian Evangelical Church Mekane Yesus leaders, finance staffs who helped and encouraged me to work and unreservedly assisted me in providing necessary data.

The moral support and understanding committed to me by my spouse, W/ro Dawi Moroda and my daughter Abily Gemechis, while pursuing the class in the extension program was really tremendous.

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## **Acronyms & Abbreviations**

BDS	-	Birbir Dilla Synod
CO	-	Central Office
CS	-	Central Synod
CES	-	Central Ethiopia Synod
CGS	-	Central Gibe Synod
EECMY	-	Ethiopian Evangelical Church Mekane Yesus
EECF	-	Ethiopian Evangelical Churches' Fellowship
GJS	-	Gimbi Jorgo Synod
IBS	-	Ilubabor Bethel Synod
IRS	-	Internal Revenue Service
MYS	-	Mekane Yesus Seminary
NCES	-	North Central Ethiopia Synod
NPO	-	Not-for-Profit Organizations
PIIC	-	Pension Insurance and Investment Commission
SCS	-	South Central Synod
SCES	-	South Central Ethiopia Synod
SES	-	South Ethiopia Synod
SWS	-	South West Synod
SWBS	-	South West Bethel Synod
SS	-	South Synod
WS	-	West Synod
WWBS	-	West Wollega Bethel Synod
WGBS	-	West Gambela Bethel Synod
YDCS	-	Yemisirach Dimts Communication Services

## **ABSTRACT**

*Financial management practices in the faith based areas at large and in the churches specifically is not the recent development. Despite its age, the financial management practice has been challenged in the church because of two main reasons; the first is the source of income arise from volunteers, there is a thought not to monitor the resources with adequate professionals since it is seemed to be holy and the second is the sacred and secular divide the church in which separates the financial management to the secular one and seen as it is a profane. The existence of the aforementioned challenges on one hand and the ever growing resources of the Ethiopian Evangelical Church Mekane Yesus (EECMY) on the other hand are the two paradoxes. The study assessed the financial management practice of the EECMY for administering its financial resources within its structure. Population of the study consists of the 28 church units (synods) and 7 joint programs of the church, total of 35. The study was conducted based on purposively selected 15 church units and 5 joint programs. Non-probability sampling of purposive sampling method was used to draw samples from the population. Questionnaire was distributed to 25 leaders and 25 finance heads and chief accountants of the sampled units; interview was conducted with two higher officials of the church; secondary data such as consolidated financial statements, financial manual, and constitution of the church were used for analysis. The elements of financial management such as accounting records, financial planning, financial policy and organizational philosophy, financial reporting and monitoring and internal control activities were assessed in order to study financial management practice of the EECMY. The data was analyzed by using SPSS through descriptive statistics and the finding of the study indicated that the major challenges of the financial management practice of the EECMY are absence of cash flow statement for reporting, financial policy weakness in using modified cash base instead of following international and nationally accepted financial policies, insufficient number of professional accountants, unclear revenue source and fund uses in the lower level structure, lack of periodical comparison of plan versus actual budget, risk of not audited financial statements, inconsistency with ethical values in few areas, lower risk assessment duties, absence of internal audit activities, and absence of account reconciliations. The study recommends adoption of new financial standards, introduction of cash flow statement, addressing of risk assessment elements of the church, introduction & strengthening of internal audits, and concerned body of religious organizations and financial policy and standard setting bodies in Ethiopia to establish institution that confirms churches are operating with integrity, accountability and transparency.*

## **CHAPTER ONE**

### **1.1. Introduction**

Some history records show that in the early ancient days, recording of financial events was initiated for the purpose of faith based activities in the ancient Greece (Mesopotamia); financial records have been found on clays in Mesopotamia, which show lists of expenditures, and goods received and traded around temples. (Biobele, 2008). The development of accounting, along with that of money and numbers, may be related to the taxation and trading activities of temples.

During the first millennium BC, there is also evidence for an early form of accounting in the Old Testament of Bible for people of Israel; as the Book of Exodus in the Bible describes Moses engaging Ithamar to account for the materials that had been contributed towards the building of the tabernacle.

Around 40 AC, the record on the New Testament also shows that in the early church, there was job segregation on the sacred work versus the secular work; where the apostles appointed committee comprises 7 members to manage the giving and other properties from the church members. (Acts 6:3)

The medieval period Church of Scotland had been using financial management decision for the purpose of different investment activities. It is evident that accounting for asset and income was mobilized in order to achieve social aims. (Catriona & et al 2010)

Practice of working with and using accounting for financial management decision in the faith-based in general and in Christian churches in particular is not the recent development. But the practice is seen in either of the following two ways: the first is that churches rely on a great deal of volunteer support, and as a result may not have the professional oversight to adequately monitor the resources of the organization (Thomas & et al, 2003). The second reason is the ignorance of churches to the accounting and financial management with the reason of the tension between the perceived secular orientation of finance and accounting and the sacred activities of churches. Accounting systems, in this context, for churches, are not part of the sacred agenda and

should not interfere with the more important spiritual endeavors of the Church (Niklas Kreander & et al, 2004).

The sacred and secular divide, separates the legitimate part of the church from the profane support activities. Accounting is seen as a support activity, and is thus profane. It is regarded as irrelevant to the life of the organization and only tolerated to the extent that it supports the sacred (Niklas Kreander & et al, 2004).

The EECMY is the pioneer protestant church in Ethiopia. According to central Statistical agency of Ethiopia 2007 census report, 18.5% of Ethiopian population is protestant and the EECMY constitutes more than 50% with total membership of 8,310,129; and its annual budget of the year 2016 is more than 1 billion birr. (Data from consolidated balance sheet of the church 2016)

This paper investigated the practice of financial management elements in the Ethiopian Evangelical Church Mekane Yesus.

## **1.2. Background of the Ethiopian Evangelical Church Mekane Yesus**

At the turn of the 19th Century, Ethiopian Christians began proclaiming the Gospel with the help of Lutheran and Presbyterian Missions in Ethiopia. From these joint efforts the Ethiopian Evangelical Church Mekane Yesus (EECMY) was instituted as a national Church on January 21, 1959 G.C., (Fekadu Gurmessa, 2009)

In 1970s the EECMY developed the theme, "Serving the Whole Person", later on often quoted and referred to as holistic Ministry. The concern of the holistic ministry is not only for the spiritual need of a person, but also for the physical and human needs. (Fekadu Gurmessa, 2009).

To achieve these missions the church has been structured as Central Office (a coordination office located in Addis Ababa), Synods (church units in different regional states of the country and have administrative & economic autonomous rights in their working area), parishes or presbyteries (are Synod sub-units) and then congregations. In addition to these, there are joint program units such as Theological colleges, Pension-Insurance and Investment Commission, Communication Services, Development and Social Service Commission. (The church constitution revised in 2005 E.C.)

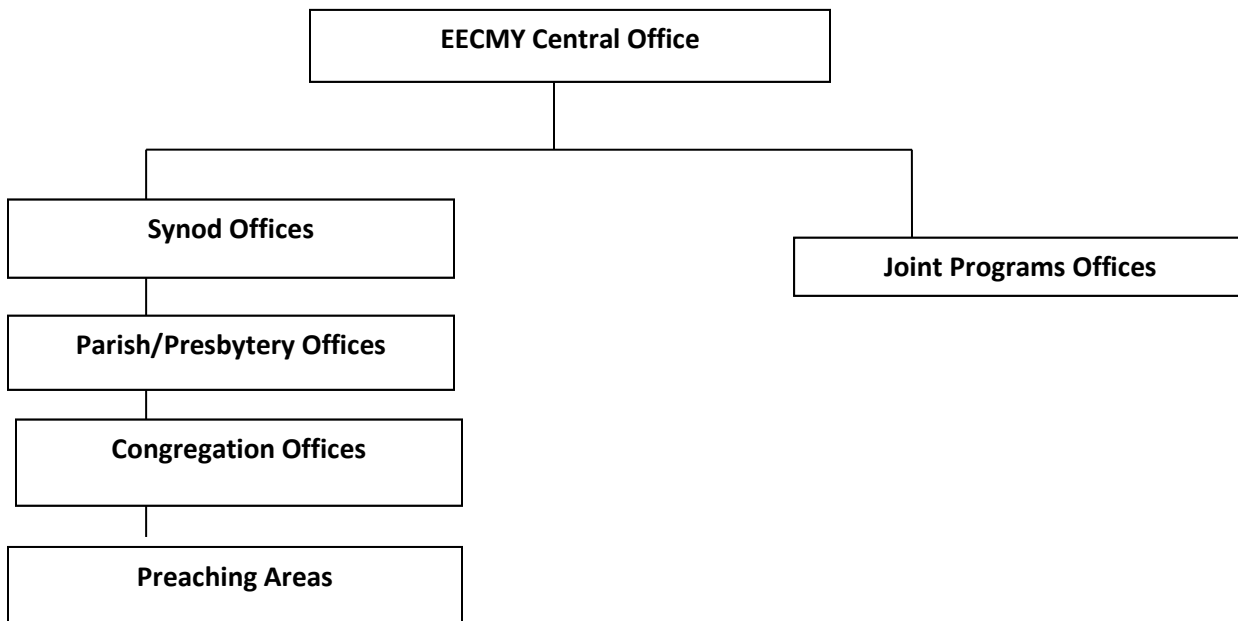
**The central office**, the office takes care of the overall coordination of the activities of the Church on national and international levels and also is responsible for the entire administration of the activities of the Central Office. It also facilitates assistance from the overseas partners, agencies and sister churches. Furthermore, it follows up implementations of the policy decisions of the General Assembly and resolutions of the Council and the Executive Board. The office also ensures whether Synods' level financial management and record keeping follows the manual of the church and follow up asset of the church to be recorded in the name of the church and ascertain proper utilization of assets in each unit.

**Synods:** They are commonly called Church Units. Since the synods are self governing units, they raise their own budget, recruits employees, manage the staffs and terminate the employees. Collect money from the lower structures, parishes and congregations (it is the main budget source of synods) use the 90% of the collection and send the remaining 10% to the central office in quarterly base.

**Parishes/Presbyteries:** are working by representing their respective synods; executes the decisions and rules of the church. Prepare their respective budget based on cash allotted from congregations (lower level structure); other than their budget, they collect 10% of the total income of the congregations, pass it to the synod for higher level structures for budget subsidies. Coordinate congregations under them by controlling their cash flow, assign audit committee to the congregations, encourages them to send the budget allocated to the parish as well as to the higher level structures.

The church has by now 28 synods, under which 8,909 congregations are organizing their works, with 8,310,129 members.

**Administrative Structure of the Ethiopian Evangelical Church Mekane Yesus**



Each congregation is accountable to its parish/presbytery; each parish/presbytery is accountable to its synod. And each synod is accountable to the Central Office.

Congregations collect cash from members in the form of tithes, gifts, Sunday service collections, and thanks giving for the church mission in the name of the Ethiopian Evangelical Church Mekane Yesus, prepare their own budget, plan on cash management, and implement plan and prepare financial report semi-annually to the members. Send financial report quarterly to respective parishes/presbyteries.

The main source of Revenue for the church is cash flow from lower level to higher level; which is called tithe approach; investments are the second internal sources of fund for the church. Each church unit is encouraged to invest in different investment options, in which the church shows the pave.

Partners' subsidy from abroad is also another source of fund for the church. Therefore, this paper tries to investigate how the Ethiopian Evangelical Church Mekane Yesus is working in the aforementioned finance system.

### **1.3. Back Ground of the study**

As far as the researcher's knowledge, there is no study conducted referring the financial management practice in the case of the Ethiopian Evangelical church Mekane Yesus and other evangelical churches locally and globally at large. Hunduma Gagn (1998) assessed church's financial management, focus on the EECMY. He discussed on the need of financial management elements; but, only confined to the use of funds that the church received from foreign partners by then. He also discussed on the guidelines, concepts to be followed, which was written for higher officials' (leaders') guide. There are also some researches which were conducted in relation with church financial management. According to Thomas & et al :2003, Not for Profit Organizations, including churches, are driven by social responsibility and service rather than a profit motive, so they are less likely to devote attention to financial control (Shim and Siegel, 1997). Lack of financial control can weaken the ability of both types of organizations in achieving their goals and missions. Although scholars have given much attention to financial control in the for-profit sector, little research is available on financial control in Not for Profit Organizations. Even less research is available on religious Not for Profit Organizations. (Duncan and et al, 1999)

(Suge et al 2013) find out how financial planning practices enhance balance between outflow and inflow of church funds and to explore the effect of financial analysis practices on sound investment decisions of church funds. The more the churches use the financial management analysis, the more their decision making on finance be better.

(Peninah Jepkogei Tanui & et al 2016) investigates how Internal Control is useful for effective financial management in the church that Christianity in the world is expected to grow with time. They further cited from Status of Global Mission (2014), that the total Christians by the year 2025 are expected to hit 2,700,343,000. The total Church income to be generated by this Christian population in 2025 is \$350 billion per year. However, the 2013 reports from Status Global Missions and Centre for the Study of Global Christianity speculate that Christians worldwide committed more than \$37 billion in church-related financial fraud during 2013. According to the Brotherhood Mutual Insurance Company (2015) referred by Penninah& et al (2016), which insures America's Churches and related ministries, they point out that Church crime continues to grow by \$100 million each day. In this regard, the Company has suggested best financial management practices to help prevent fraud in the Church which includes establishing Church's financial policy in writing, conducting annual background checks as well

as annual credit reports and implementing annual external audits. They also noted that in Africa, financial scandals in the Church are rampant.

This research assessed the elements of financial management; Accounting records, financial policy, financial planning, financial report & evaluation and internal control in the Ethiopian Evangelical Church Mekane Yesus.

It is a must for faith-based organizations to live as a best example rich in core values such as integrity, professionalism, servant-hood, partnership and stewardship. This thus calls for the need of strong financial management control, which needs to be implemented so as to act as a weapon against failure in the Church. By doing so, the Church achieves a going concern and reaches out its mission. The aim of this research is to examine how the EECMY is performing its duties in applying the financial management elements and forwarded possible recommendations and so that financial management practice of the church be improved.

#### **1.4. Statement of the Problem**

As per the knowledge of the researcher, financial management practice and control has not been studied in the Ethiopian protestant churches at large and in the Ethiopian Evangelical Church Mekane Yesus in particular. Little researches are made on modern financial management practice in protestant churches globally (Duncan & et al, 2009). The EECMY had been relying on foreign sources due to different reasons in past periods; Lack of religious freedom in the Dergue regime, poor local fund raising system, and poverty prevailed in the country are major reasons. By now, a decreasing of fund from foreign sources (partners of the church) results from misunderstandings in doctrinal issues and other priorities of partners overrun the aid of the church, a time is coming where the church is working to depend on its own internal income.

As a result, the church has been trying to make investments, launching alternative local source of finance, designing lower to upper structural fund flow system, and starting to practice different income generating schemes in different places.

The EECMY by now launches its major source to come from tithe contribution of its members, which is expected to flow from lower structure, i.e. congregations, to upper structure, Synods and Central Office. The system shows that the lower structure retains 90% from its collection and passes 10% to the upper structure, Synod; and the synod retains 90% of the 10% and passes the remaining 10% to the Central Office. The EECMY has also been investing its resource in

different investments, investment on banks and other profit organizations, and fixed asset investments such as construction of buildings for rental uses. Both sources of income i.e. contributions from members and income from investments believed to sustain income of the church within the structure.

Mufadal & et al, (2016), assessed the importance of diversifying income sources, mainly for nonprofit organizations, and argued that additional sources of funding such as grants and earned or investment income will likely make the nonprofit organization more financially stable and perhaps allow organizations to better serve their constituents. Organizations that rely mainly on contributions may be most at risk from resource dependency. Since donations are the second major source of revenue for nonprofit organizations (behind fees for services) and make up the major source of funding in some industries, shrinking donor markets and greater competition for donations could contribute to even greater levels of financial instability for organizations that rely mainly on donations. This suggests that revenue diversification may be especially helpful for organizations that rely mainly on contributions.

Deborah A. Carol & et al (2009), also argue that nonprofits and churches with more diversified revenue portfolios have lower levels of revenue volatility over time, which implies that diversification is a viable strategy for organizational stability. Nonprofits and churches can indeed reduce their revenue volatility through diversification, particularly by equalizing their reliance on earned income, investments, and contributions. This positive effect of diversification on revenue stability does not capture possible trade-offs between funding sources, for instance earned income crowding out private donations. However, it does imply that despite potential shifts in the amount of particular revenue streams, a diversified portfolio encourages more stable revenues and consequently could promote greater organizational longevity.

Diversified income helps the EECMY to generate more funds and the annual budget versus actual report measures shows that income of the church increases from time to time. As a result, the EECMY annual working budget of the year 2017 nears to 1 billion Ethiopian birr without capturing majority of congregational working budgets. This includes about one-fourth of the 8,909 total congregations. (Report of consolidated financial report September/2017).

The researcher here poses a question that having diversifying income is not enough to secure income sustainability. But proper management of funds; procedures of collections of sources and proper and transparent expending of uses are equally and/or more important for an organization.

According to Thomas C. Wooten & et al (2003), faith based nonprofit organizations have no owners; they are based on hope, prayers, and dreams rather than the financial benefit of individuals. They often rely heavily on volunteer management and support from people supporting the mission of the organization. As a result, they may not have professionals to adequately monitor the organization's resources or the behavior of its leaders. Even full-time employees are often attracted by the organization's mission and have little interest in financial management. On the other hand, the habit of churches is trying to operate with uncertain revenues (Mufadal& et al, 2016). The predicted and unpredicted economic climate has created challenges. This creates the need for churches to find help figuring out the best way to manage their limited resources.

To be safe and sustain, practicing financial management elements is important for faith based organizations and particularly for church organizations.

So as to evaluate the existence and elements of financial management and their practitioner, in the Ethiopian Evangelical Church Mekane Yesus, the following research questions are formulated in order to conduct the study:

- Does the church ascertain financial record keeping in its units?
- Does the church follow financial planning and implementation?
- Are there clear and updated financial policies and manuals in the church?
- Are financial reports prepared timely and audited & reported to stakeholders?
- Do internal controls are set and practiced?
- Does the church attain objective of collection from members?

## **1.5. Research Objective**

### **1.5.1. General Objective:**

The objective of this study is to assess Financial Management practice of the Ethiopian Evangelical Church Mekane Yesus (EECMY).

### **1.5.2. Specific Objectives:**

The specific objectives of this paper are:

1. To assess the practice of financial record keeping of the EECMY.
2. To study the financial policy and manual of the EECMY.

3. To study financial planning and forecasting of the church.
4. To investigate financial reporting and monitoring of the church.
5. To assess the existence & employment of internal control procedures in the church.

### **1.6. Scope and Limitation**

In conducting this study, out of 36 similar Evangelical Churches (denominations) (annual report of EECF), only the Ethiopian Evangelical Church Mekane Yesus is selected for the assessment of church financial management practice; and the findings cannot be generalized to all similar churches. The need to focus on one church arose from the fact that The Ethiopian Evangelical Church Mekane Yesus was established in 1959 G.C. and this made the church a pioneer Evangelical Church in the country; (Fekadu Gurmesa, 2009) other evangelical churches were formed after this time. The study includes church leaders in the questionnaire and interview, since they are higher officials and key personnel for the church. But most of the leaders are theologians and may not have sufficient finance backgrounds. Additionally, unwillingness of leaders, for being busy, to respond the questioner distributed by the researcher was a challenge. The turnover of finance staff is too high in few church units and this might result in inconsistency on data gathering in church units.

### **1.7. Significance of the Study**

The purpose of the study is to assess the financial management practice of the EECMY. In general the study will have the following significance:

- Since the church has been experiencing paradigm shift from depending on partners financial aid to the self-reliant strategy where by the church is expected to cover all its ministries by internally raised income, the study of financial management practice in the church can impact positively on the church's operation and gives a chance to review financial procedures.
- Provide an opportunity for leaders and managers of the church to consider and review the journey traveled through the shift and gives a chance to check the existing practices, in order to take appropriate corrective action.
- The finding of this research will provide a guide for the future direction of the church and helps to adjust its goals and objectives.

- The study will also be expected as eye-opening to the financial management study of Evangelicals and other churches for further research on the church economy.
- Little research has been made on the religious organizations' financial management in the country and beyond; the study thus, contributes to the knowledge.

## **CHAPTER TWO**

### **Review of Related Literature**

#### **2.1. Theoretical Review**

##### **2.1.1. Definition of Financial Management:**

Financial management refers to the acquiring of resources and their management; included are matters involving tax administration, collection of user fees, management of cash, methods of financing capital projects including the issuance of bonds, and accounting. (James C. & et al, 2002)

Christian Regobeth, (2009), defines Financial Management in broader way that it covers the administration and maintenance of financial assets, identification and management of risks, and building up (diversification) of financial assets portfolio to ensure regular flow of financial resources in the future.

##### **2.1.2. Importance of Financial management in the church and NPO**

Regobeth (2009) has contended the contemporary need of financial management in the churches of Assembly of God in Ghana, Accra, and find out that sound financial management is not only crucial for the financial health but also for the spiritual health of the Church. For proper financial management, Regobeth, recommended that Church must get the right people for the job, set its priorities right, monitor its revenue flow, plan its expenditure accordingly, identify and manage financial risks, and build up or diversify its portfolio of financial assets to ensure regular flow of financial resources in the future.

Svitlana(2009) also assessed importance of financial management for Not-for-profit organizations and NGO while working for USAID funded service capacity projects in Ukrain, Kyiv, and recommended that financial management is vital to achieve sustainable development in the tough actuality of today. Svitlana further find out that financial management best practice in Not-for-Profit organizations and NGOs will:

- \* help managers use resources efficiently and effectively;
- \* improve NGO reporting to fiscal authorities and donors;
- \* help earn partners and beneficiaries' respect and trust;
- \* Help NGO better compete for resources that are becoming increasingly limited;

\* Help NGO attain financial sustainability in the longer term.

Financial management is concerned with the acquisition, financing, and management of assets with some overall goal in mind. Thus the decision function of financial management can be broken down into three major areas: the investment, financing, and asset management decision. (James C.&et al, 2009).

**a) Investment Decision**

The investment decision is the most important of the firm's three major decisions when it comes to value creation. It begins with a determination of the total amount of assets needed to be held by the firm. The financial manager needs to determine the dollar amount that appears above the double lines on the left-hand side of the balance sheet – that is, the size of the firm. Even when this number is known, the composition of the assets must still be decided. For example, how much of the firm's total asset should be devoted to cash or to inventory? Also, the flip side of investment- disinvestment must not be ignored. Assets that can no longer be economically justified may need to be reduced, eliminated, or replaced.

According to Deborah & et al(2016), Capital investment decisions are not governed by one or two factors, because the investment problem is not simply one of replacing old equipment by a new one, but is concerned with replacing an existing process in a system with another process which makes the entire system more effective. Deborah et al (2016), also mentioned some of the relevant factors that affects investment decisions:

**a.1. Management Outlook**

If the management is progressive and has an aggressively marketing and growth outlook, it will encourage innovation and favor capital proposals which ensure better productivity on quality or both. In some industries where the product being manufactured is a simple standardized one, innovation is difficult and management would be extremely cost conscious.

**a.2. Market forecast**

Both short and long run market forecasts are influential factors in capital investment decisions. In order to participate in long-run forecast for market potential critical decisions on capital investment have to be taken.

### **a.3. Fiscal Incentives**

Tax concessions either on new investment incomes or investment allowance allowed on new investment decisions, the method for allowing depreciation deduction allowance also influence new investment decisions.

### **a.4. Cash flow Budget**

The analysis of cash-flow budget which shows the flow of funds into and out of the company may affect capital investment decision in two ways.

First, the analysis may indicate that a company may acquire necessary cash to purchase the equipment not immediately but after say, one year, or it may show that the purchase of capital assets now may generate the demand for major capital additions after two years and such expenditure might clash with anticipated other expenditures which cannot be postponed. Secondly, the cash flow budget shows the timing of cash flows for alternative investments and thus helps management in selecting the desired investment project.

Duncan& et al (2003) explained that traditional theories of finance assume that investors use all available information and make rational investment decision but in reality the scenario is different. Based upon the growing importance of behavioral finance the present study is an attempt to investigate the effect of behavioral factors such as risk aversion, use of financial tools and firm level corporate governance on the decision making of equity fund managers. The results of the study demonstrate that a positive and significant relationship exist among heuristics, use of financial tools, risk aversion, firm-level corporate governance, and investment decision making. The results further demonstrate that firm-level corporate governance plays a pivotal role and is an important factor affecting investment decision making. Equity fund managers of institutions apply heuristics and financial tools while formulating their decisions. Equity fund managers of institutions are also found to be risk averse.

### **b) Financing Decision**

The second major decision of the firm is the financing decision. Here the financial manager is concerned with the makeup of the right-hand side of the balance sheet. If you look at the mix of financing for firms across industries, you will see marked differences. Some firms have relatively large amounts of debt, whereas others are almost debt free. Does the type of financing employed make a difference? Once the mix of financing has been decided, the financial manager must still determine how best to physically acquire the needed funds. The mechanics of getting a

short-term loan, entering into a long-term lease arrangement, or negotiating a sale of bonds or stock must be understood.

James et al, (2009) Capital structure determines a firm's fiscal and organizational health. Financial executives create optimal capital structure by diversifying company debts and outstanding shares. Business analysts evaluate capital structure by reviewing several corporate characteristics – such as long-term financial assets, executive control, planning fluidity and historical performance. Optimal capital structure is the key to decreasing expenses and increasing profits for stakeholders.

Firms trade on equity, or company ownership, to borrow capital against equity shareholder profits. Equity shareholder profits originate from income generated by issuing securities to preferred stockholders and debenture holders. In theory, shareholders benefit when firms use this financing practice, because the interest rate on funds are lower than standard loan rates.

James et al, (2009) further discussed that firm's security composition determines organizational ownership and falls under two classifications – highly geared and low geared. Highly geared companies secure financial assets using a small percentage of equity capitalization, while low geared firms secure mostly equity capital.

Capital structure optimization is crucial for short- and long-term growth. Financial analysts review the following factors, among others, to evaluate capital structure:

**b.1. Emergency Preparedness**

Responsive financial planning factors into preparing a firm for market changes, such as revenue fluctuations and financing availability, to ensure timely loan repayments. Equity capital is not liquid. Therefore, firms issues securities such as debentures to improve corporate financial responsiveness.

**b.2. Economic Conditions**

The economy influences stock prices. When the financial market is low, companies form debenture and loan capital structures. During market highs, firms maintain equity capital structures.

Firms secure short-term loans from banks and other lending institutions and long-term loans by issuing stocks and debentures. The cost of money, as dictated by economic conditions, affects capital structure when a firm raises funds with securities. Debenture instruments are more

beneficial for firms relative to equity share disbursements, which garner higher returns and therefore result in higher corporate expenses.

### **b.3. Solid Fiscal Performance**

Consistent historical revenue indicates that a firm can cover expenses over time. Firms must pay some securities, such as debentures, regardless of profits. Therefore, healthy sales indicate an enterprise's ability to meet financial obligations.

When revenue is down, organizations seek equity financing for flexible repayment terms. Smaller firms typically procure bank loans and organizational profits for operations, while larger firms issue shares in combination with commercial loans.

### **b.4. Financial, Business and Operational Risk**

Expense consistency affects capital structure. How expenses fluctuate due to unforeseen circumstances is important. Natural disasters, for instance, stunt short-term revenue by hampering sales and long-term revenue with productions blockages.

The economy where a firm conducts business is also subject to unforeseen risks. In the contemporary business world, size no longer assures economic survival. Therefore, finance executives consider every possibility imaginable to mitigate negative economic events.

### **b.5. Interest Rate Changes**

Interest rate changes affect company profits. Firms secure loans with different terms, such as fixed or floating interest rates. If a firm operates successfully, but overlooks potential interest rate changes, the firm may fall behind in payments.

The Federal Reserve determines rate changes based on the country's economic circumstances. They lower rates when they want to stimulate economic activity, such as consumer spending. This also makes it easier, and more cost-effective, for businesses to secure loans. During low interest rate cycles, enterprises borrow finances for research, development and expansion. When the Federal Reserve raises rates, businesses curtail borrowing, because it is difficult to realize a return-on-investment with high interest rate loans.

### **b.6. Debt and Equity Financing**

Substantial equity capital, as opposed to debt capital normally indicates optimal overall financial performance. However, firms benefit from both instruments, depending on their circumstances. With debt financing, company founders retain ownership and management control. For smaller businesses, debt instruments allow greater financial latitude. Once the business owner pays the loan, they are no longer obligated to the lender, and loan instruments do not require complex reporting.

#### **Different theories in capital structure**

Factors determine the capital structure, different theories can be used. Some of the theories are; the trade-off, the pecking order and the agency theory. These theories give a kind of guideline of the common relation between determinants and leverage. (Henricken 2012)

In accordance with trade-off theory, companies with more tangible assets have more debts. Tangibility is positively related to leverage. In line with the pecking order theory it has been found that firms with more profitability are less likely to use debt to finance the company. According to the agency theory, namely those growth opportunities are positively related to leverage.

#### **c) Asset Management Decision**

The third important decision of the firm is the asset management decision. Once assets have been acquired and appropriate financing provided, these assets must still be managed efficiently. The financial manager is charged with varying degrees of operating responsibility over existing assets. These responsibilities require that the financial manager be more concerned with the management of current assets than with that of fixed assets. A large share of the responsibility for the management of fixed assets would reside with the operating managers who employ these assets.

### **2.1.3. The Role of Financial Manager**

If someone becomes a financial manager, his ability to adapt to change, raise funds, invest in assets, and manage wisely will affect the success of his firm and, ultimately, the overall economy as well. To the extent that funds are misallocated, the growth of the economy will be slowed.

When economic wants are unfulfilled, this misallocation of funds may work to the detriment of society. In an economy, efficient allocation of resources is vital to optimal growth in that economy; it is also vital to ensuring that individuals obtain satisfaction of their highest levels of personal wants. Thus, through efficiently acquiring, financing, and managing assets, the financial manager contributes to the firm and to the vitality and growth of the economy as a whole. (JAMES C. & et al 2008)

#### **2.1.4. Characteristics of Church based organizations**

According to Thomas C. Wooten and et al (2003) ,Faith based Not-for-Profit Organizations (FBNPOs) differ from for-profit organizations in that they must adhere to a designated mission or purpose in order to maintain their tax exempt status; they cannot distribute surpluses; and they have no owners. They are based on hope, prayers, and dreams rather than the financial benefit of individuals, creating an environment that makes financial controlling and planning more difficult (Thomas,2003). FBNPOs also differ from for-profit organizations in that they often rely heavily on volunteer management and support from people supporting the mission of the organization; as a result, they may not have the professional oversight to adequately monitor the organization's resources or the behavior of its leaders. Even full-time employees are often attracted by the organization's mission and have little interest in financial management. This also perpetuates the belief that no one working for the organization would purposely misuse or misappropriate its money because of their dedication to the mission. Staff often sees controls as unnecessary because FBNPOs do not have the same temptations and pressures of a traditional for-profit business. Numerous how-to manuals address the financial control and planning and needs of these FBNPOs. (Thomas 2003)

#### **2.1.5 Accounting standards for Religious organizations /churches**

##### **2.1.5.1 FASB Standards**

Bill & et al (2014), briefed that Standards issued by the FASB govern the preparation of financial reports for all nongovernmental entities, including churches. As to them, the primary FASB standards that are relevant to churches include:

- SFAS No. 95 Statement of Cash Flows
- SFAS No. 116 Accounting for Contributions Received and Contributions Made.
- SFAS No. 117 Financial Statements of Not-for-Profit Organizations
- SFAS No. 124 Accounting for Certain Investments Held by Not-for-Profit Organizations

None of the standards that apply to churches changed; they were just grouped together under one title: FASB ASC Topic 958, Not-For-Profit Entities. The updated codification is in effect for all financial statements ending after September 15, 2009.

**SFAS No. 95**

*Statement of Cash Flows* established standards for cash flow reporting. The cash flow statement is a separate report included in the financial statements. It details the sources and uses of cash for a reporting period. In the past, SFAS No. 95 didn't apply to nonprofits; however, the SFAS No. 117 *Financial Statements of Not-for-Profit Organizations* included the SFAS No. 95 for nonprofits starting December 15, 1995.

**SFAS No. 116**

*Accounting for Contributions Received and Contributions Made* established standards for reporting contributions. The standard, starting December 15, 1995, requires that contributions received and made be reported as unrestricted, temporarily restricted, or permanently restricted. Restrictions are made by the donor.

**SFAS No. 117**

*Financial Statements for Not-for-Profit Organizations* renamed nonprofit financial statements and required that a complete set of financial statements must include the following:

- Statement of Financial Position (formerly the Balance Sheet)
- Statement of Activities (formerly the Income Statement)
- Statement of Cash Flows

This standard, starting December 15, 1995, gave a new name to the equity portion of the Statement of Financial Position - Net Assets. The Net Assets section consists of fund balances. Net Assets should be classified and reported as unrestricted, temporarily restricted, or permanently restricted, depending on any donor-imposed restrictions. This rule establishes an important distinction that separates nonprofits from for-profits: nonprofits need to keep track of restricted funds in order to honor their donors' wishes. That's what makes fund accounting so important.

**2.1.5.2 IFRS Standards**

According to Meshack matengo (2012), the following International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) have been identified as being relevant to Non-for-Profit Organizations. The requirements of these IASs have been considered

and amended to suit the operations and transactions of these organizations. The relevant International Accounting Standards are:

1. Presentation of Financial Statements IAS 1
2. Inventories IAS 2
3. Cash flow Statement IAS 7
4. Accounting Policies, Changes in Accounting Estimates & Errors IAS 8
5. Events after the Balance Sheet Date IAS 10
6. Construction Contracts IAS 11
7. Income Taxes IAS 12
8. Property, Plant & Equipment IAS 16
9. Leases IAS 17
10. Revenue IAS 18
11. Employee Benefits IAS 19
12. Borrowing Costs IAS 23
13. Related Party Disclosures IAS 24
14. Accounting for Investments IAS 25
15. Consolidated and Separate Financial Statements IAS 27
16. Provisions, Contingent Liabilities and Contingent Assets IAS 37
17. Investment Property IAS 40

#### **2.1.6. Financial Accounting Standards No. 117**

This Statement establishes standards for general-purpose external financial statements provided by a not-for-profit organization. Its objective is to enhance the relevance, understandability, and comparability of financial statements issued by those organizations. It requires that those financial statements provide certain basic information that focuses on the entity as a whole and meets the common needs of external users of those statements.

This Statement requires that all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It requires reporting amounts for the organization's total assets, liabilities, and net assets in a statement of financial position; reporting the change in an organization's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

This Statement also requires classification of an organization's net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

This Statement amends FASB Statement No. 95, *Statement of Cash Flows*, to extend its provisions to not-for-profit organizations and to expand its description of cash flows from financing activities to include certain donor-restricted cash that must be used for long-term purposes. It also requires that voluntary health and welfare organizations provide a statement of functional expenses that reports expenses by both functional and natural classifications.

This Statement is effective for annual financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the Statement is effective for fiscal years beginning after December 15, 1995

### **2.1.7. Cash vs. Accrual Basis of Accounting**

Cash basis and accrual basis of accounting are two different methods of recording income and expenses. They differ in the determination of when to recognize and record income and expenses in the financial records.

- **Cash basis of accounting** — Income is recorded when received and deposited and expenses are recorded when they are paid.
- **Accrual basis of accounting** — Income is recorded when earned and expenses are recorded when incurred.

Nonprofit organizations have to follow one additional rule (FAS 116) since their income consists of earned revenue and contributed income (grants and contributions). Whereas there is an earning process for earned revenue (for example provision of counseling services coincides with earning of the revenue), there is no earning process for support, since there is no quid-pro-quo exchange.

### **2.1.8 financial ministry in the church**

The United Methodist church in Oklahoma (Robert, 2000) has contended book of financial discipline to get there financial affairs in order. Financial ministry in the church involves a team of people dedicated to help the congregation support its mission. The team includes these people and entities:

- The Pastor: - the role of pastors in financial ministry of church is that providing leadership for the funding, to model and promote faithful financial stewardship and encourage giving as a spiritual discipline, to encourage giving.
- The Committee on Finance: - functions and responsibilities of the committee are, to provide financial direction, providing annual funding program, creating and administering church's budget, provide financial reports, providing safeguarding assets and funds donated to church.
- The Financial Secretary: - works the day-to-day accounting works of the church such as, recording of income, expenditures, summarizing and coding of financial events. Reporting to the committee on finance.
- The Treasurer: - responsible for disbursement of funds, receive weekly deposit slips from finance secretary, provide a committee of finance a regular report of expenditure for the year and fund balance, implement the policies of the committee on finance to establish procedures.

### **2.1.9 Financial Activities in Not for profit Organizations**

Debbie Greiff, and Hyde Ghaffari (2001), CPAs, who have developed financial management guide for nonprofit organizations in the USA, grouped financial activities of the NPO into three areas:

1. **Planning & budgeting** are those processes whereby the organization sets goals and objectives, allocates its resources among its activities and decides how those activities will be operated. Budgeting is a process that relies both on financial information about past performance and the organization's future plans. Concerns in this area include:

- Involving people appropriately in the budgeting process;
- considering both internal and external factors in budget development;

- Using past and current information to develop realistic projections; and,
- Agreement on the use of the budget in managing the ongoing operations.

2. ***Transaction handling and record-keeping*** is the bookkeeping/accounting area of financial activities. Checks must be written to pay bills; incoming checks must be deposited, commitments of the organization and commitments to the organization must be recorded, an ongoing record of financial activities must be kept and the information must be presented to executives of the organization in an understandable and useful manner. Concerns in this area include:

- Hiring appropriate and knowledgeable staff;
- Timely and accurate recording of financial transactions;
- Proper authorization of payments;
- Prompt deposits of receipts; and
- Timely and accurate preparation of financial reports.

3. ***Financial management*** is the management of current financial operations based on analysis of financial information and knowledge of the organization's objectives and plans. The financial manager oversees and directs the accounting process and participates in budget development and revision. In addition, the financial manager is responsible for such activities as cash flow management, cost allocation, cost analysis and asset management. Concerns for the financial manager include:

- Anticipation of financial problems;
- Maximizing use of financial resources;
- Ensuring tax compliance;
- Ensuring compliance with funder requirements;
- Ensuring compliance with generally accepted accounting principles (GAAP) applicable to nonprofit organizations; and
- Providing meaningful information to program managers.

#### **2.1.10. What determines a firm's value?**

The three basic facts: (1) any financial asset, including a company's stock, is valuable only to the extent that it generates cash flows; (2) the timing of cash flows matters—cash received sooner is better; and (3) investors are averse to risk, so all else equal, they will pay more for a stock whose cash flows are relatively certain than for one whose cash flows are more risky. Because of these

three facts, managers can enhance their firm's value by increasing the size of the expected cash flows, by speeding up their receipt, and by reducing their risk. (Eugene F. Brigham, Financial Management Theory and practice 13<sup>th</sup> ed. 2010)

Financial management continues to change at a rapid pace. Advancements are occurring not only in the theory of financial management but also in its real-world practice. One result has been for financial management to take on a greater strategic focus, as managers struggle to create value within a corporate setting. In the process of value creation, financial managers are increasingly supplementing the traditional metrics of performance with new methods that encourage a greater role for uncertainty and multiple assumptions. Corporate governance issues, ethical dilemmas, conflicting stakeholder claims, a downsized corporate environment, the globalization of finance, e-commerce, strategic alliances, the growth of outsourcing, and a host of other issues and considerations now permeate the landscape of financial decision making. It is indeed a time of both challenge and opportunity.

#### **2.1.11. Advantages of Sound Financial Management**

As per Christian Regobeth, (2009), Sound financial management:

- ensures efficiency in resource mobilization.
- ensures efficiency in resource use.
- builds positive cash flows.
- allows core functions to be executed without delay.
- reduces debt accumulation.
- ensures the attainment of the goals of the individual or the organization.
- brings happiness to the individual or members of the organization.
- pleases God since; in this case, we would have proven that we are goodstewards of God's resources.

#### **2.1.12. Pillars of financial management**

1. **Consistency.** A financial policy should be time-consistent. This ensures the effectiveness and transparency of activities, specifically financial reporting. At the same time, systems can be modified and improved if an organization changes. Inconsistent approaches to financial management can be a sign of financial manipulations inside an organization.

2. **Accountability.** An organization should account for the use of its resources and its achievements to its stakeholders, including beneficiaries. All stakeholders have a right to know how the money was spent and how their authority was used. NGO must account for their decisions and actions, and publish their financial reports.
3. **Transparency.** An organization should be open about its operation and provide information about its activities and plans to stakeholders. Transparency implies accurate, detailed and timely financial reporting to stakeholders, including beneficiaries. If an organization lacks transparency, one can get an impression that it has something to conceal.
4. **Viability.** To ensure financial viability an organization's expenditures should match its revenues, both on the operational and strategic levels. Viability reflects NGOs' financial integrity and reliability. Trustees and managers of an organization should develop a financial strategy showing how NGO will meet its financial obligations and implement its strategic plan.
5. **Integrity.** NGO should work honestly and properly. For example, managers and board members should set an example by adhering to the established policy and procedures, and declare their own interests, which at times may run counter to their responsibilities. Honest financial recordkeeping and reporting is conditional on the accuracy and completeness of financial accounting.
6. **Oversight.** An organization must oversee the financial resources it has been entrusted with and their target use. A decision-making body (e.g. the board) should assume joint responsibility for this. In practice executive staff ensures proper financial oversight through thorough strategic planning, financial risk assessment and creation of proper oversight systems and means.
7. **Accounting standards.** A system of financial accounting and recordkeeping should meet internationally accepted accounting standards and principles. Any accountant in any country should be able to see the workings of the system that an organization is using for its financial management.

#### **2.1.13. The Process of financial planning and financial control.**

In the church environment, financial control refers to monitoring cash flows – inflows and outflows. Inflow is the amount of money coming into a particular company or organization while outflow is a record of the expenditure being made by the company. (Regobeth, 2009). It is important to manage this movement of funds in relation to the company's budget which can be

defined simply as a list of financial strategies for the realization of the company's goals. It follows therefore that the main aim of financial management at the organizational level is to achieve the various goals that an organization sets for itself for a given time period.

The church should prioritize the goals of its mission. The core goals should not be compromised. Monitor the flow of the revenue stream, allocate expenditure items proportional to its goals priority, and time its expenditure with its revenue flow, do periodic appraisal of its goals in relation to its expenditure items, think of minimizing its expenditure without compromising your core objectives.

Debbie & et al (2001), Budgets are tools of the financial management system used for two central management functions: decision making (planning) and monitoring and controlling. A budget is a plan of action expressed in financial terms. In the course of planning, an organization defines its purpose, mission, goals, objectives, strategies and activities. Through the budget process, decision-makers look at the financial implications of their plan: how much a program will cost and what are the anticipated revenues. Within the limits of scarce resources, priorities are set and budgets are created.

The budget is also a tool for monitoring and controlling ongoing organization activities. Once a plan has been developed, the organization needs information to see whether it is keeping to its plan. If the organization has gone "off track", various responses can be considered. Since the budget describes the plan in terms of dollars, it provides a basis for monitoring progress.

If, for example, a program is costing more than anticipated, it may be necessary for management to bring costs down, or it may be decided to review the plan to take a higher level of expense into account.

A budget can be thought of as the organization's plan of action, expressed in dollars. A budget describes and estimates the expected income from different sources and the expenditures, needed to make to achieve its program objectives.

An organization needs to prepare annual budgets because budgets assist organizations to:

- Define goals for a given period of time;
- Monitor progress throughout that period of time;
- Point out significant variances between the financial goals and how resources are actually being used;
- Take corrective action as problems arise;

- Predict and monitor cash flow; and,
- Illustrate need to funding sources.

#### **2.1.13.1 Budgeting Process**

The budgeting process is a complex one that can involve the entire organization, i.e., the executive director, financial staff, the finance committee and treasurer of the board, the board's fundraising committee, program staff, etc. Involving appropriate individuals in the process will provide opportunity to unite different viewpoints. As per Debbie and et al (2001), the following is a ten-step approach to budgeting process:

Step 1: Establish the budget period and review program achievements and financial performance for the current year.

Step 2: Identify major programs and activities of the organization and set goals and objectives for the budget period.

Step 3: Decide on method of cost assignment/allocation and estimate the cost of required resources, i.e., expenses.

Step 4: Estimate anticipated income.

Step 5: Bring income and expenses into desired relationship.

Step 6: Plan for cash flow.

Step 7: Approve the budget.

Step 8: Implement the plan and the budget.

Step 9: Compare actual income and expenses to budget.

Step 10: Update cash flows, revise plan and budget as appropriate.

#### **2.1.14. Definition of Income Diversification**

Deborah and Keely (2008) define the concept of revenue diversification as it is derived from Modern Portfolio Theory articulated by Markowitz, which describes the process by which an investor selects a particular investment portfolio. The portfolio selection process involves a dichotomy (a separation into two) between desirable high-expected returns and undesirable variance from expected returns. Diversification, through the law of large numbers, keeps actual returns close to the amount of anticipated returns. This rule assumes the existence of an optimal portfolio that will both maximize expected returns and minimize variance; however, selecting a

portfolio that accomplishes both of these goals is difficult because these separate functions are likely served by different portfolios.

### **2.1.15. Accounting controls vs Management controls**

Thomas & et al (2003) defined Accounting controls as it relies on structures, policies, and procedures to prevent, detect, and correct financial problems. These policies and procedures include activities such as appropriately segregating employee duties, requiring appropriate approval for transaction, reconciling data, and so on. One purpose of accounting internal control is catching and preventing fraud. This purpose may discourage religious NPOs from implementing sound control policies because they don't want to appear to be untrusting. However, internal controls are not in place primarily to catch fraud. The controls are designed to help prevent putting individuals in situations where they might make errors or be tempted to engage in questionable transactions. Internal control exists to protect the individuals as much as to protect the organization.

In contrast, management controls deal more with the direction of the organization. These controls focus on encouraging people to support the organization's goals, and they control individual work procedures.

## **2.2. Empirical Review**

### **2.2.1. Financial management and financial sustainability in church**

Bright (2016) who has conducted research on Church related organizations in Kenya for their financial sustainability, revealed that of the 17 Church Related Organizations interviewed, 18% claimed to be fairly sustainable while 82% claimed to be in moving towards a crisis. The study findings show that financial management affects the financial sustainability of the Church Related Organizations through, budgeting systems, funds flow control system, asset management systems, financial planning, reporting and monitoring systems, accounting policies and procedures, internal and external auditing systems, financial analysis and information systems. Bright recommends that Church Related Organizations should consider strengthening monitoring and evaluation processes of all financial management practices. Further, he recommended that the organizations should be able to develop and implement an action plan to ensure regular supervision of financial management processes.

Lisa & et al (2012), argued that financial sustainability in non-profit-organizations has the following key challenges; risk of reliance on external funding sources, demonstrating value and accountability to funders and supporters, promoting community engagement and leadership. They also searched that an organization sustainable in the long term but unsustainable in the short term will be chronically short of cash. Conversely, an organization sustainable in the short term but not in the long term may have adequate cash but inflation will cause the value of its assets to erode over time. This, in turn, will cause the quantity and quality of services to diminish unless capital campaigns periodically bring infusions of new assets.

### **2.2.2. Accounting records and updating in NPO& religious organizations**

Jamaliah (2013) contended on financial management practice in religious organizations of Mosque in Malaysia on how financial record keeping improves financial performance. Jamaliah's finding showed that proper keeping of records on disbursement of funds, recording of receipt of income will affect the financial management practice in mosque. He recommends that accounting records enhance donors' confidence to channel their money to the mosque.

Enumeration of John & et al (2012) on accounting records for NGOs and not-for-profit organizations (NPOs) of Sub-Saharan countries, identified that the strongest reason to devote scarce resources to the accounting record and preparation of sound financial statements derives from two grounds: 1) the legal and regulatory obligations to government, 2) recent years have seen increased media attention to non-profit organizations that maintain disgusting overhead costs or cannot account for funds received. As donors come to understanding of non-profits have begun to provide more information to donors in an effort to increase levels of accountability and transparency.

Mark Vincent (1999), who has studied on the congregational financial management, argued that accounting records and substantiate financial documents provide information on a church's income and expenditures, and support the information on prepared financial statements. These documents can be used to reflect the financial health of a church as of a specified date.

According to David (2012), who assessed financial management practice of Assemblies of Church in Ghana, one of the best practices in the church finance is updating records regularly as financial events are occurred and these records are to be reviewed regularly by internal auditors

that are independent of finance units and or by controllers. Proper filing and documentation system prevents fraud connecting with the double payment in single source document.

### **2.2.3. Church Financial Policies and Guidelines**

Keith (2007) assessed the need of having sound financial policy in the Baptist churches in Georgia. He find out that church financial policy can help churches to avoid church conflicts by providing well-written and understandable church policies on financial matters. Church financial polices also help establish a clear Biblical basis in handling the financial resources God has provided a congregation.

For Peter & et al (2008), who conducted a study on financial principles and policy of the Orthodox church in America, recommended that the church should adopt financial policy that they said best practice and include or taking into consideration the following key elements: establish clear and decisive financial governance, adopt ethics and conflict of interest policies, design and implement appropriate financial controls, conduct annual independent audits of financial statements, ensure transparency of financial data and performance, develop and maintain knowledge of emerging non-profit issues.

Resources are properly kept and utilized with the set procedures if the leadership of the church is strong and control the lower level structures with control mechanisms. (David 2009).

### **2.2.4. Financial forecasting and planning practice in church**

Irvin Helen (2005) assessed the sacred agenda of the church and the secularity of financial planning and budget. Irvin studied that there are two views: the first said that all activities of a church is sacred, so, the church should not worry on the brining in the secular thought of financial planning and budget management. The others argued that financial planning and budget is crucial for the church. The reason they lined with is that accounting and budgeting were not inconsistent with the church's core theological teachings. The ministry in the church needs to be funded, so someone fund it by putting it in the budget. Irvin concluded that by encapsulating the goals within the church budget, financial targets were established which served a spiritual purpose, and the church's progress in achieving those financial goals month by month was measured against set financial targets. Obviously there are dimensions of a church apart from

financial ones, but in this case the financial dimension was a necessary part of the achievement of spiritual goals which required monetary resources.

Ozotango(2009) contended on financial record keeping in religious organizations in the case of Catholic Church of Nigeria, in Enugu; researching on the financial record keeping of the church unit and the practice of financial procedures. According to him, adopting financial planning and budgetary practice is vital and helps to prevent personal interests tend to over-ride the management of the church. He further finds out that budgetary system also helps to control different source of funds and to restrict its expenditures.

Suge (2013) studied on the effect of financial management practice on church funds stewardship of Kenya, with objective of how financial planning practices enhance balance between outflow and inflow of church funds and to explore appropriate budgeting with the effect of financial analysis practices on sound investment decisions of church funds. The study findings revealed that financial planning enhanced the balance between income and expenditure of the church fund through proper budgeting, participatory and planned budget. The study recommended that churches to adopt financial planning as a strategy to manage their funds.

According to Debbie & et al (2001), who contended on NPO of the USA and their findings revealed that for many nonprofit organizations, planning and financial management, are activities that divide rather than unite the organization. Program planning is often viewed as the domain of the executive director, program directors and the board. Fiscal management is assigned to the bookkeeper, accounting and finance director and perhaps the board treasurer. Program planners and fiscal managers speak different languages and often have different priorities, and may or may not be aware of the importance of the other's approach to the budget process. Program planning decisions often are viewed as failing to reflect economic realities, while fiscal management decisions are often viewed as insensitive to the programmatic mission of the organization. These conflicts are often fought out during the budgeting process, the very process that should unite these viewpoints.

According to Bright (2016), a constant challenge facing financial planning is the partiality of elected officials in the church, to be preoccupied with short-term issues.

### **2.2.5. Financial reporting and monitoring of religious organizations**

Raymond & et al (2015), contended the compliance of financial reporting of religious organizations in the USA. He elaborated by referring the study of Blackwood that Americans contributed approximately \$335 billion to charitable organizations (public charities) in 2014, and religious organizations received 31% of the funds (i.e. \$104 billion), by far the largest benefactor. However, unlike other public charities, they are automatically exempt from the annual IRS compliance reporting. This is based on the protection of religious freedom which exempted such organizations from government scrutiny. Religious organizations are becoming more complex, and are growing exponentially especially in the ‘mega church’ sector. Thus, they argue that Perhaps it is time to re-examine the compliance reporting exemption. Raymond & et al (2015), further argued that institutions working as watch dog, such as The Evangelical Council for Financial Accountability (ECFA) helping churches and religious organizations (herein categorized as churches) improve transparency and accountability in their activities. Churches can become accredited through the organization by complying with its seven standards on responsible stewardship. These standards include governance; financial oversight such as the preparation and publication of audited (or reviewed) financial statements; and compliance with applicable laws. Another institution that is working as watch dog on religious organization is the Trinity Foundation; it is a religious, charitable and educational nonprofit, which monitors and investigates religious fraud.

### **2.2.6. Internal Controls as part of financial management in religious organizations**

Mason (2009) enumerates internal control of church finance, and argues that since administration of Church’s finance is a sacred trust, it is very important for the church leader to establish a strong system of internal control because he/she has the responsibility for overall stewardship of the Church. Duncan & et al (1999) stated that the objectives of internal control structure fits all entities including the Church thus are essential. These objectives include providing reliable financial statements, safeguarding assets, promoting adherence to management’s policies and procedures, promoting operational efficiency and effectiveness.

In a study by Duncan & et al (1999), inadequate internal controls can hinder the management responsibilities of Church officers and employees and place them in a position where they may

be tempted to engage in questionable activities and accounting practices, or could subject individuals to unwarranted accusations of such activities.

Thomas & et al (2003) identified that Nonprofit Organizations (NPOs) have different goals and missions than do for-profit organizations. NPOs are driven by social responsibility and service rather than a profit motive, so they are less likely to devote attention to financial control.

Thomas & et al (2003) studied that several recent high profile cases of financial mismanagement in religious organizations have highlighted the need for all religious nonprofit organizations (NPOs) to have strong internal accounting controls. These organizations are often small, rely on a great deal of volunteer support, and as a result may not have the professional oversight to adequately monitor the resources of the organization or the behavior of its leaders.

Thomas & et al (2003) further recommended that Religious Non-for-profit Organizations (NPOs) must provide safeguards for all property, whether cash or other assets, and assure that it is used solely for authorized purposes. Control will be enhanced if the duties of the members of the organization are divided so that no one person handles all aspects of a transaction from beginning to end. Although a complete separation of functions may not be feasible for the small organization, some measure of effective control may be obtained by planning the assignment of duties carefully. The most effective techniques for providing internal control are: cash receipts should be recorded immediately and deposited daily, bank accounts should be reconciled monthly by someone other than the person who signs the checks, a petty cash fund should be entrusted to a single custodian and used for all payments other than those made by check, checks to vendors should be issued only in payment of approved invoices, and the supporting documents should then be cancelled, the person who is responsible for the physical custody of an asset should not also have responsibility for keeping the records related to that asset, the person who has authority for placing employees on the payroll and establishing wage rates should not be the same person who signs the checks.

Duncan & et al (1999) on their study of religious financial control, they identified internal control goals appropriate for a religious NPO. They classified internal control concepts as involving general cash receipts, cash disbursements, and reconciliation.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Study Area and Approach**

As per Catherine (2002) qualitative research explores, attitudes, behavior and experiences. It attempts to get an in-depth opinion from participants. This type of research generates statistics through the use of scale survey research, using methods such as questionnaires or structured interviews. Quantitative research is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement. Neither qualitative nor quantitative research is better, they are just different. Both have their strengths and weaknesses. The term ‘triangulation’ is used when a combination of qualitative and quantitative forms of inquiry are used. Many researchers believe this is a good way of approaching research as it enables to counteract the weaknesses in both qualitative and quantitative research Catherine (2002).

In this paper, the researcher used both qualitative and quantitative research approach (triangulation); the reason for combining both data is to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research and to reduce risk of errors in applying any one of the approaches.

Quantitative data was employed on this research for review of financial statements; consolidated income statement and consolidated balance sheet, to see the relationship of the number of members and income collection and manuals and published documents of the EECMY.

For both qualitative and quantitative data this research employed self administered questionnaire which were distributed to church units finance directors and leaders, and central office officials. This questionnaire helped to analyze five elements that are used to assess financial management practice: Accounting records, financial policy, financial planning, financial reporting and monitoring and internal controls, of the church.

#### **3.2. Target Population**

In research methods, population is the entire aggregation of items from which samples can be drawn (Yin, 2009). The target population to be considered in this study was leaders and finance managers of the 28 church units and 7 joint programs of the EECMY. According to the 2017 statistics report of the church, there are 28 synods, which hold 8,909 congregations and 7 joint

programs. The synod is a self-governing (autonomous) unit of the church, with their own constitutions, laws and regulations under the church's constitution range, and every congregation is accountable to it. The congregants are working with their respective synods and the synods are the highest decision making bodies for parishes and congregations. The church has also special units that are working on their respective given missions called "Joint Program Units", which are 7 in number. Including the joint programs, the total number of units included in the entire population is 35, i.e. the sum of total units of the church.

### **3.3. Sample size and sampling method**

According to Cathereine (2005), because covering the whole population in the study makes the study difficult, sampling is used. Sampling is the process of choosing a group, which is believed representative, from target population and enable to draw statement.

Sampling method which was employed in this study is non-probability sampling, called purposive sampling. Purposeful sampling is widely used in qualitative research for the identification and selection of information-rich cases related to the phenomenon of interest (Patton, 1990). This involves identifying and selecting individuals or groups of individuals that are especially knowledgeable about or experienced with a phenomenon of interest (Cresswell & et al 2010). According to Cresswell & et al (2010), one of the case where purposive sampling is appropriate is a case study analysis (find relevant individuals and study them in depth). For the case of this research, the researcher studied from the church's consolidated financial report of the year 2016, among 35 different church units, 16 synods (CS, WS, NCES, BDS, GJS, SES, SCES, SCS, SWS, CES, WWBS, IBS, SWBS, SS, CGS) and 4 Joint programs (MYS, PIIC, YDCS, CO) are pioneers, working as a unit for more than 15 years, and large in their financial capacity. These units have started different investments, for replacement of foreign aid into locally raised funds. The remaining 16 units were brought up out of the 20 and are younger on financial management issues. In addition to this, the procedure to be used for drawing the sample from the available lists was also the familiarity with more financial management practices and long-year experience in managing external and internal source of funds.

In order to undertake this study, the researcher purposely sampled 20 church units because of the above mentioned criteria.

### **3.4. Methods of data collection and instrument**

This study used both primary and secondary data. Primary data were collected using close-ended and open-ended questionnaires developed by the researcher and few of the questioners were extracted from Ozotambgo(2009).Whereas, secondary data was generated through review of financial statements, manuals, resolutions and documents of the EECMY.

This research is thus, measured the goodness of financial management practice through the elements of financial management in the church; proper accounting record keeping, financial planning, and existence of well developed financial policy, financial reporting and strong internal control system.

#### **3.4.1. Questionnaire**

Questionnaires were distributed to 20finance officers and 20 leaders of the selected church units. Finance officers were selected as respondents because they are familiar about the elements of financial management and well aware of financial decision making and income earned and expenditures spent in their respective synods. The church constitution reads that finance heads are among the decision making bodies in management committee. The leaders communicated were presidents, vice presidents, treasurers or executive secretaries of the synods or directors of the joint programs. The research used mixed questionnaires, both close-ended and open-ended. Because, having such questionnaire gives chance to respondents to express their thought more freely. Mixed questionnaires have many advantages; the most important of this advantage is its considerable flexibility (Yin 2009).With regard to the close- ended questions, the respondents were asked to indicate their level of agreement on a five point scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant. (Joseph & et al, 2003) With respect to the open ended questionnaires the respondents were asked to provide open ended responses to the questions that require opinion and if they have opinions they feel, the researcher found useful.

### **3.4.2. Interview**

In addition to questionnaires, semi structured interview with two central office leaders was conducted. The major purpose of interview is to corroborate certain facts that the investigator already thinks have been established (Yin, 2009).

Thus, semi structured interviews were conducted so as to substantiate and improve the result of questionnaires. It also allows the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which may rise at the study progress.

### **3.4.3. Document review**

The review of financial statements, manuals, resolutions and policies helped the researcher to understand the facts of data kept in written concerning the financial management practice of the EECMY and the relationship of members' gifts and the number of members. The document reviews were used to triangulate the data collected by the questionnaires and interviews.

### **3.5. Method of data analysis**

In order to meet the stated objectives, data collected using questionnaire were analyzed through descriptive statistics using SPSS software. In using SPSS, descriptive analysis was made. Using such package helps to describe what the data look like, where there center (mean) is, how broadly they are spread in terms of one aspect to the other aspect of the same data and more descriptive analysis are made (Leedy, 1989). Then the data were analyzed using a statistical Package for Social Sciences (SPSS) software (version 20) and presented using tabulation and graph. The SPSS was used as main means for summarizing the data. Quantitative data helped to qualify the qualitative interpretation. To sum, the analysis of quantitative data and interpretation of qualitative data combines to seek convergence among the results (Creswell, 2003).

## **CHAPTER FOUR DATA ANALYSIS AND PRESENTATION**

### **4.1. Introduction**

Data collected through different techniques were analyzed in this chapter. In the analysis, a total of fifty (50) questionnaires were distributed to leaders and finance heads of 20 purposely sampled church units. Out of the fifty (50) questionnaires distributed, forty eight (48) were successfully completed, returned and used for the study. The response rate was 96 % of the total questionnaires distributed. The researcher was also conducted interviews with higher officials of the central office of the church. In addition to this, secondary data, i.e. review of the consolidated financial statements was done. Accordingly, the presentation, analysis and interpretation of the questionnaires and interviews were done simultaneously and the findings obtained from the interviews were presented by substantiating against the results obtained from the questionnaires. SPSS V. 20.0 tool software was used in order to analyze the research results.

### **4.2. Reliability test**

Before proceeding to data analysis and interpretation, checking for the reliability of data is very important. (Kimmo, 2000). Different researches including business environment, involve the use of Linker-type scales. (Joseph & et al 2003). Joseph further states the reasons for using multi-item measures instead of a single item for measuring psychological attributes: 1) individual items have considerable random measurement error, i.e. are unreliable. Measurement error averages out when individual scores are summed to obtain a total score. 2) An individual item cannot discriminate among fine degrees of an attribute. 3) Individual items lack scope.

Cronbach's alpha is a test of reliability coefficient for internal consistency; and it is the most common measure of internal consistency ("reliability"). Reliability shows the extent to which the assessment instrument yields consistent results of each item. (Kimmo, 2000). Cronbach's alpha is the average value of the reliability coefficients one would obtain for all possible combinations of items.

Cronbach's alpha is most commonly used for reliability test when a researcher have multiple Likert questions in a survey/questionnaire that form a scale and wish to determine if the scale is reliable.

Joseph has cited the work of George and Mallery (2003) that they provide the following rules of thumb:— $0.9 = \text{Excellent}$ ,  $>0.8 = \text{Good}$ ,  $>0.7 = \text{Acceptable}$ ,  $>0.6 = \text{Questionable}$ ,  $>0.5 = \text{Poor}$ , and  $<0.5 = \text{Unacceptable}$ ”

Joseph & et al (2003), recommended utilizing likert-type scales to be tested overall scale and subscale for internal consistency. Accordingly, before analyzing the data, the researcher has tested the reliability test of data: 1) as a whole and 2) for the sub-items of data as follows:

**1) Reliability test of data**

No.	Description	Reliability Statistics	
		Cronbach's Alpha	N of Items
1.	Reliability test for the whole data	0.912	38
2.	Reliability test for Accounting Recording	0.701	6
3.	Reliability test for financial policy	0.625	5
4.	Reliability test for financial planning & budgeting	0.685	6
5.	Reliability test for financial reporting & monitoring	0.904	6
6.	Reliability test for internal control	0.866	15

Table 1:-Output of SPSS, shows Reliability statistics.

The reliability test of the whole data shows 0.912 or 91.2%, this reveals that internal consistency for the whole test of the data is excellent. The Financial recording is one component of the financial management practice and its reliability coefficient is 0.701 (70.1%) shows that it is acceptable for the analysis. The test of financial policy and organizational philosophy element for reliability is 0.625 (62.5%). According to Field (2009) referred by Millan (2013), A factor with four or more loadings greater than 0.6 is reliable regardless of sample size. Thus, the component is still acceptable for analysis. For financial planning and budgeting, though the test shows figure less than 0.7, i.e. 0.685 (68.5%); it approaches almost to the level of acceptable figure and since the whole data is viable and reads excellent, having this component is more important than deleting.

The reliability test for financial reporting and monitoring shows highest figure, 0.904 (90.4%), it means that the data is excellent in its consistency for analysis. The figure of cronbach Alpha for Internal control is 0.866 (86.6%), high and its acceptance level is more than adequate status. The reliability test for overall data as well as for each element read acceptable; having this truth, the data analysis for questionnaire and interview is explained here underneath as follows:

### 4.3 General Information of the respondents

General Information part of the questionnaire asked to indicate position of the respondents, the name of the church units, work experience in the church units, , Gender of the respondents, and number of professional employees in the units are illustrated in the below tables.

	Frequency	Percent	Valid Percent
Leaders	23	46.0	46.0
Valid Finance and Admin. Heads	25	50.0	50.0
Total	48	96.0	96.0

Table 2: Summary report of respondents SPSS Out put

46% of the respondents were leaders of church units and 50% of the respondents were finance and administration heads. The leaders are mainly responsible for policy issues and are key personnel to pass different resolutions, and finance and administration heads are accountable for financial procedures and responsible for day-to-day transactions. Having both the leaders and the finance heads as respondents enable the data not to incline on one side. It helps the researcher to balance views of both sides and the combined data helps to approach the truth.

	Frequency	Percent	Valid Percent
Male	40	80.0	80.0
Valid Female	8	16.0	16.0
Total	48	96.0	96.0

Table 3: summary result of respondents SPSS Out put

Majority of the respondents in terms of gender were male by 80%, and the remaining 16% were female. This implies that the church might not give attention to female staff to the higher positions. This shows more efforts to be exerted to bring female staff to leadership positions. As per the interview responds from higher officials, the church is gender sensitive in members participation decision making bodies. The participant of women to men ratio is clearly set on the constitution. Possible reason for few women in the church’s leadership position is that women might not get a chance for higher trainings.

<b>Work Experience of the respondent</b>			
	Frequency	Percent	Valid Percent
0-5 years	9	18.0	18
5-10 years	7	14.0	14
Valid 10-15 years	6	12.0	12
above 15 years	26	52.0	52
Total	48	96.0	96.0

Table 4: summary report of respondents SPSS Out put

18% of the respondents had 0-5 years experience in the church, 14% of the respondents were working in the church units for 5-10 years, 12% of the respondents had 10-15 years work experience and the remaining 52% of the respondents had above 15 years work experience. More than half of the respondents have greater than 15 years work experience in their respective units. Few of the units suffer from high turnover staffs, especially on the area of finance department. As per the response from the interview, the reason mentioned was that the units do not have attractive benefit packages.

According to, Muhammad & et al (2013), that there is a negative relationship between the dependent variable organizational performance and the Independent variables employee turnover, workload, work stress and salary.

High turnover of finance staff is one of the sign of employee dissatisfaction on benefit packages, thus, this affects organizational performance negatively. Since the outgoing personnel went with his/her experiences, exposures and familiarity with the procedures, the organization loses and forced to train a new staff.

<b>Number of Professional accountant employees in the units</b>			
	Frequency	Percent	Valid Percent
1-3	26	52.0	52.0
Valid 4-6	19	38.0	38.0
above 6	3	6.0	6.0
Total	48	96.0	96.0

Table 5: summary report of respondents SPSS Out put

52% of the respondents responded as their units have 1-3 professional accountants, 38% of the respondents said that their units had 4-6 professional accountants, 6% of the respondents responded that their respective units had more than 6 professional accountants. Though the units

have big financial capacities, as mentioned on the chapter three, one of the reasons for including units into purposive sampling is large financial capacity. But the data presented on table 5 shows that majority of the units lacks professional accountants. This implies that the units either working with unqualified personnel or work load is shouldered on the few professionals. Working with few staffs may have cost advantages, but the disadvantage is that it may create opportunity for trust violation, and may also results in inadequate internal control over assets.

According to Melvin (2012), some of certain distinguish characteristics that make nonprofit organizations vulnerability to fraud and abuse different from commercial business are, an environment of trust unlike that found in for-profit enterprises and excessive control by few people. When few people have an advantage of excessive control, the degree of occurrence of fraud and misuseage is high.

Having few qualified accountants may negatively affect the church by creating opportunity for fraud in missing job segregations. This in turn may causes mistrust in church units.

**Financial statements used by the units**

		Frequency	Percent	Valid Percent
Valid	Only Income statement and Balance sheet	48	96.0	96.0

Table 6: Summary report of SPSS Out put

Meshack and et al (2010) assessed financial reporting for not-for-profit organizations and reviewed the IAS 7/IPSAS2, the cash flow statement for NPO is crucial usually for non-restricted (block-grant) funds. According to meshack, NPOs are encouraged to use a direct method of preparing the cash flow statement.

As per IAS 1.10, complete set of financial statements includes: a statement of financial position (balance sheet), a statement of profit and loss, a statement of change in equity for the period, a statement of cash flow for the period, notes comprising a summary of significant accounting policies and other explanatory notes and comparative information prescribed by the standard.

Bill & et al (2014), argued that statement of cash flows in SFAS No. 95 is the primary FASB standards that are relevant to churches. Using of cash flow statements is to be applicable for churches.

All of the respondents responded that their units only use Income statement and balance sheet for financial reporting purpose. Cash flow statement is not yet introduced among the units. The reason for not using cash flow statement was raised in interview questions, and responded that the financial manual of the church is outdated and needs revision. Meshack & et al (2010) further explained the use of Cash flow statement in an organization for the purpose of cash forecasting and future plans of collection, for appropriate fund utilization and even for investment of an organization. Missing to use cash flow statement makes the church at least to lose the benefits of cash flow mentioned by Meshack & et al.

#### 4.4. Accounting Records

Details	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	Mean	Mode
Use of financial software for recording	-	-	-	2	46	48	4.97	5
Updates financial events timely	-	-	4	-	44	48	4.95	5
Review records timely	-	-	-	3	45	48	4.97	5
Follows GAAP	10	31	7	-	-	48	1.97	2
Clear filling and documentation system	-	-	3	18	27	48	4.58	5
Procedures of recording are stated on financial manual.	-	-	6	20	22	48	4.67	5
Overall Mean							4.35	

Table 7: SPSS output for accounting records data

Bill & et al (2014), argues that all organizations, for-profit or not, need accurate bookkeeping and accounting software to avoid negative consequences like fines, a damaged reputation, and even closing. The response from table 7 shows that, all units are using financial software for accounting recording. The results show that 4% agree and the remaining 96% strongly agree the usage of financial software within respective units. As per the interview conducted with central office officials, the software used in the church is called Navision financials and same within the units. This helps the church to produce similar financial data with same chart of accounts, and finally helps the church to easily consolidate all financial statements to make up the whole picture of the church. The area of recording seems strong within the church. The second line item asks if updated of financial events are done timely; 8% of the respondents responded as they are

neutral for it but majority of the respondents 92% of the respondents strongly agree as financial events are updated timely. Accounting records are to be updated immediately as financial events are occurred. (Jamaliah, 2013). Updating of financial records implies that the church units are timely finishing, financial records, and postings and can generate financial statements when deemed necessary.

After financial events are recorded, there should be somebody who review records timely before financial reports are generated. This could be done through internal audit procedure or through finance controllers. (David, 2012). Accordingly, the results of the respondents' show that 6% agree and 94% strongly agree as a regular review of records are done within the units. This indicates that the church has a strong ground in regular reviewing of financial records.

One of the international standards for the accounting records, analysis and reporting is the Generally Accepted Accounting Principle (GAAP) or even in recent days International Financial Reporting Standards (IFRS). In Ethiopia, in line with the proclamation to provide for financial reporting, proclamation no. 847/2014, all private and governmental organizations to follow IFRS in preparation of financial statements. But as it is seen from the response, 10 respondents (21%) strongly disagree, 31 respondents (65%) of the respondents disagree, 7 respondents (15%) of the respondents gave neutral response concerning the usage of GAAP in their respective units. The answer from interview of the central office finance office shows that the church and its units use modified cash base system. This system comprises more of cash base with limited use of accrual system for some procedures such as, depreciation, and receivables. Fail to use internationally recognized standards may result in presentation of unacceptable financial statements in Ethiopia and beyond. The implication of failing to follow international financial standards may lead the church into generating unacceptable financial reports by the government, by financial institutions and even by stakeholders. Un-updated financial manual is the main possible cause of the problem.

Concerning existence of clear filing and documentation system, 3 (6%) of the respondents responded neutral, 18 (38%) of respondents agree and 27 (56%) of respondents strongly agree as clear filing and documentation system exists in the church. Majority agree on the availability of the filing and documentation system. Having appropriate filing and documentation system prevents frauds related with double payments. (David, 2012). Proper filing and documentation in

the church seems strong and this may help for easy reference and further investigative searches, in conducting internal and/or external auditing.

A procedure of recording stated on the financial manual is important so that any accountant can easily understand what to do and how to generate financial reports. 6 (12%) of the respondents were neutral, 20 (41.67%) of the respondents agree and 22 (45.83%) of the respondents strongly agree. Majority of the respondents agree as the existence of procedures stated on the manual. This indicates that the financial manual of the church is easily understood.

#### 4.5. Financial policy and Organizational philosophy

Details	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	Mean	Mode
There is clear financial & administrative manuals	-	10	6	14	18	48	4.76	5
Financial policy & guidelines are utilized	-	-		12	36	48	4.82	5
Qualified and experienced finance staff	-	26	14	4	4	48	3.26	3
Strong leadership in resource management			29	10	9	48	4.03	4
Establish clear and decisive finance governance.	-	-	15	16	17	48	4.73	5
Overall Mean							4.32	

Table 8: SPSS output for financial policy and organizational philosophy

The first line item under financial policy and organizational philosophy asked whether there is clear financial and administrative manuals exists in the units. Accordingly, 10 (21%) of the respondents disagree, 6 (13%) of the respondents gave neutral answer, 14 (29%) of the respondents agree as the manuals exist in their respective units and 18 (38%) of the respondents strongly agree to the existence of the manuals. From this respond one can conclude that on average, majority of the respondents agree on the manuals existence. According to Keith (2007), churches avoid church conflicts by providing well-written and understandable church policies on financial matters. Thus, confirmation to the existence of financial manuals indicates that the

church has something to show for procedures and regulations to follow. As Keith argues, it may also prevent unnecessary conflicts between the finance unit and other staffs.

Utilization of Financial policy and guidelines within the church units was responded as 14 (29%) of the respondents agree and 36(75%) of the respondents strongly agree on the usage of financial policy and guidelines. The response shows that there is no problem in the following up of policies and guidelines of finance. This indicates that once policies and guidelines set for finance, there is no implementation problems. The reason for this may arise from internalizing policies and procedures through continuous trainings and follow ups.

Alzbeta (2011) contended on the human resource management, that for an organization, having qualified and experienced staff is seen as human asset (human capital), the organization gains its distinctive (unique) character through its human capital. On table 8, those respondents disagree with having qualified finance staff is 26 (54%), respondents with neutral answers are 14 (29%), respondents agree with having qualified finance staff is 4 (8.3%), and those responding with strongly agree are 4 (8.3%). Majority of the respondents disagree as their finance occupied with professional accountants. This implies that the church finance may lack consistency in the duties, since the new comers are going to be trained and updated at the cost of the church units. The reason behind lacking qualified accountants was raised in interview questions for officials and responded that it is due to lack of paying competitive salary. As a result, staff turnover in church units' finance office is high and even rampant in few units.

To manage resource of an organization, strong leadership is very important (David, 2012). Resource management in the church units have been responded as 29 (60%) viewed neutral, 10 (21%) agree as there is strong leadership is there and 9 (19%) strongly agree that there is a strong leadership in resource management. As it is seen from the results, there might be strong leadership in resource management but not sufficient in all area of the church units. Lack of weak leadership in resource management is the indication of access to use church resources for personal use or other ways of mismanagement. Personal or group interests that might not be in line with the church policies and inadequate awareness might be causes for weak resource management.

Establishing clear and decisive finance governance is seen as one part of policy issue within the church. The Council of the EECMY is one of the highest decision making body and meets once in a year. The council is entrusted with responsibility for the proper and effective use of all

assets for the administration and operation of the Church. The statute of the EECMY give executive authority to the Council and further, the Statutes instruct different boards, elected by the Council, to review the accounts and the funds of all Church-related institutions and to report on their audit to the Council on a yearly basis. 15 (31.25%) of the respondents were neutral, 16 (33.33%) of the respondents agree and 17 (35.42%) of the respondents strongly agree that decisive finance governance was established in the church. This indicates that boards of different units are accountable to a higher body, i.e. to the council, which implies boards are also responsible for their duties and actions. It is also part of check and balance system for decision making bodies.

#### 4.6. Financial planning and budgeting

Details	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	Mean	Mode
Participation of finance staff in budget preparation	-	8	21	14	5	48	3.58	3
Clear Revenue source & expenditure use	-	3	21	11	13	48	4.11	4
Board approves annual budget	-	-	-	18	30	48	4.79	5
Planned cash forecasting & timely collection	-	12	14	12	10	48	3.66	4
There is periodical budget comparison.	-	13	8	6	21	48	4.05	5
Flexible of budget for revision to the existing situation.	-	23	3	10	12	48	4.12	4
Overall Mean							4.05	

Table 9: SPSS output for financial planning and budgeting

According to Irvine Helen (2005), all organizations, even those with a sacred agenda, need to confront the reality of money and accounting as well as financial planning if they are to achieve success. One of the ways to achieve effective financial planning is participatory budget preparation, i.e. including qualified finance staff in the budget preparation. The respondents from the table 9 shows that 8 (17%) of the respondents disagree with as the prepared budget is participatory, 21 (44%) of the respondents are neutral on the participation of finance staffs in the budget preparation, 14 (29%) of the respondents agree as there is participation of finance staff in

the budget preparation and 5 (10%) of the respondents strongly agree on the participation of finance staff on the preparation of the budget. The average shows in between of the response, which is, even though there is skilled finance staff participation in some areas, it requires more work to strengthen in all parts of the units. Possible reason for un-participatory budget is the secular thought of finance versus the deity work of the church, where participation in the church is confined to theologians.

Clear Revenue source and expenditure use is to be seen in the budget and this helps finance unit to stick on it and follows the guide for collection and disbursements. Unless the area of revenue is clearly seen, imbalance of revenue and expenditure is to be happened and this could lead to deficits. (David, 2013). 3 (6%) of the respondents disagree on the implementation of clear citation of revenue and expenditure, 21(44%) of the respondents are neutral on the clear presentation of the revenue source and expenditure uses, 11(23%) of the respondents agree as there is clear revenue and expenditure sources and 13 (27%) strongly agree that there is revenue source and costs use in the church units. Interview response shows that since the units are much depend on upward flow of the lower structures funds, the units may not sure (suspect) to confirm to have clear revenue and expenditure picture of their work. But, as long as the lower structure has sustainable earnings from tithes, offerings and other sources, workable policy and procedures to push funds upward should take place in the church. The results show that it is the church units face difficulties to examine the reasonable expectations of revenue sources. Possible causes for un-forecasted revenue is that insufficient trainings, workshops and continuous awareness raising are not done.

Before implementing annual budgets, the higher decision making should review and approve for implementation. (Regobeth, 2009). This helps the unit to stick on the approved budget and creates accountability for the budget. It helps the higher body (board) to follow up in line with the approved figure. There must be time to consider, question and change the budget both before and after the presentation to the board. A minimum of three months should be allowed for the process. A wise board that demands full financial statements each month should have a good understanding of the previous year's monthly cash flows and the budget categories that were over or under funded. 18 (38%) of the respondents agree as the board approves and 30 (63%) strongly agree as the existence of board approval before implementation of budget. The results show that there is strong procedure for approval of budget in the church. This may be a result of

giving due attention to budgeting as one important element of issues need follow up by the higher decision making.

One of the key cash management functions is Cash planning (projections) and uses them accordingly. (Regobeth, 2009). 12 (25%) of the respondents disagree as there is cash planning and timely collection, 14 (29%) of the respondents are neutral to cash planning activities, 12 (25%) of the respondents agree as the cash planning is exercised in the units and 10 (21%) of the respondents strongly agree that there is cash planning and timely collection. The response shows as more efforts to be done on cash planning and collection activities in developing cash flow budgets and preparing cash flow statements. Fail to plan cash indicates that sources of revenue are not clearly set and follow ups are not done accordingly. This may be a result of not having cash flow budget and cash flow statements.

Once budget is approved, periodical follow up of higher bodies should exist. (David, 2012). This could be done monthly or in quarterly bases. 13 (27%) of the respondents disagree with periodical comparison of budget, 8 (17%) of the respondents are neutral to the periodical budget comparison of their units, 6 (13%) of the respondents agree that their units have periodical budget comparison and 21 (44%) of the respondents strongly agree that there is periodical budget comparison. The practice of periodical plan versus actual comparison of budget exists in the church but not uniformly undertaken within all units. This indicates that the approved budget lacks periodical follow ups by higher decision making bodies of the church units, which is an implication of weak budget control. The possible reason for weak budget control of higher decision making bodies is that giving priorities for other issues more than periodical review of budget performance. Lack of awareness for the benefits of reviewing budgets periodically might also be a cause.

For a question pose whether budget of the church is flexible for revision to the existing situation, 23 (47.91%) of the respondents disagree on the church's budget flexibility, 3 (6.25%) were neutral, 10 (20.83%) of the respondents agree and 12 (25%) of the respondents strongly agree. One of the characteristics of a good budget is its flexibility to revise and update as per the new situation occurred. Half of the respondents disagree on budget flexibility or do not agree on budget revision. This implies that once budget is approved, experience of updating to the situation and revising budget is not applicable in the church. Possible reason for this may be control loose on budget and lack of proper follow up of budget implementation. Since the church

is operating in dynamic environment, it cannot be concluded that economic situation of the church has always smooth operation.

#### 4.7. Financial reporting and monitoring

Details	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	Mean	Mode
Preparing timely financial report to stake holders	-	8	-	16	24	48	4.47	5
Link of financial information with work plan	-	-	3	20	25	48	4.50	5
Satisfy stakeholders by appropriate fin reporting	-	-	9	20	25	48	4.21	4
Examination of external auditor every year	-	-	6	13	29	48	4.58	5
Timely review of financial report by board	-	-	8	15	25	48	4.50	5
Board select & authorize independent auditor	-	-	-	16	32	48	4.71	5
Overall Mean							4.50	

Table 10: SPSS output for financial reporting and monitoring

The processes of financial events undertaken in accounting are ended with results of financial reporting. Financial reports are prepared for different user, internal and external stakeholders. These users need financial report timely to make decisions. Therefore, financial reports are to be prepared on time for users. Concerning timely preparation of financial reports, 8 (17%) of the respondents disagree that financial reports are prepared timely, 16 (33%) of the respondents agree and 24 (50%) strongly agree that financial reports are prepared timely. According to the financial manual of the church, the closing period is 31<sup>st</sup> of December and yearly financial reports should be prepared and audited in the following year at the beginning of March. Few units do not prepare financial reports timely. A major reason told from interview results is conflict issues within the units. This implies that the impact of conflicts even affects financial affairs of the units if they are not properly handled. It is also the indication of not presenting

financial reporting to stakeholders timely, which in turn may affect fund generating activities from internal and external funders.

Concerning link of financial information with work plan, 3(6%) of the respondents are neutral to the case, 20 (42%) of the respondents agree, 25 (52%) of the respondents strongly agree that there is link of financial information with work plan. In line with an interview conducted higher officials, the church has launched 5-year strategic plan that comprises detail objectives and activities under 14 different themes, all church plans against budget is comparable and units are regularly requested to present their action plan implementation with budget. This shows that the budget has direct link with work plans. Linkage of work with plan implies that every line item in the budget is addressing the planned work. It may be concluded that the church strategic plan helps to connect the planned work and budgets.

Stakeholders of the church who are using financial reports are partners, decision making bodies of the church and government. 9 (19%) of the respondents are neutral as the financial reports satisfy their stakeholder, 20 (42%) of the respondents agree, and 25 (52%) of the respondents strongly agree that their financial reports satisfy their users. Response from interview shows that no inquiries have been initiated on the existing financial reports of the church and assumed as the stakeholders of the church are satisfied with the financial reports. As it is recognized from the above session that the financial reports are not prepared timely by some church units and silence of stakeholders should not be taken as the agreement.

External auditors examine financial reports every year in a given organization. The need of external audit is mainly due to the importance of independent report outside of the organization. 6 (13%) of the respondents are neutral for yearly auditors examination in their units, 13 (27%) of the respondents agree and 29 (60%) of the respondents strongly agree that financial audit is undertaken in their respective units. Conduct of financial audit seems strong in the church, but is not strong enough in all part of the church units. Unavailing timely audited financial reports hinder the church not to show overall pictures of total resources, uses, rights and obligations of the church in consolidation of the reports. Possible reason for not preparing timely audited financial reports is that external audit work is not in priorities settings of the units.

Timely review of financial report by board is vital as the board approves the budget of the unit. Concerning the review of the financial report, 8 (17%) of the respondents are neutral, 15 (31%) of the respondents agree and 25 (52%) of the respondents strongly agree that timely review of

financial reports undertaken. This indicates that the sources and uses of funds are regulated by the higher decision making body.

To ensure the independency, the board has to take responsibility of assigning external auditors; accordingly, 16 (33%) of the respondents agree and 32 (67%) of the respondents strongly agree that the assignment of the external auditors are made by board of the units. Since boards of the church units lead the work as owners, appointment of auditors by the board creates harmony between the managers and the board members.

#### 4.8. Internal Control

Details	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	Mean	Mode
There is strong integrity & ethical value	-	-	6	7	35	48	4.89	5
Proper assignment of authorization & responsibility	-	-	6	6	36	48	4.92	5
Clear & understandable organizational structure	-	-	-	9	39	48	4.89	5
Transparent & participatory mgt philosophy	-	6	8	11	25	48	4.55	5
Timely forecasting of cash & preparedness to meet estimated future challenges	10	13	18	4	3	48	2.92	3
Establishment of emergency fund	5	20	20	3	-	48	2.61	3
Conducting Continuous assessment of potential financial risk	11	21	12	4	-	48	2.50	2
Proper authorization of transactions	-	-	5	16	27	48	4.68	5
Safeguarding of asset through updating records	-	-	7	14	27	48	4.66	5
Proper filing & retention of records	-	-	-	19	29	48	4.63	5
Periodically top level reviews work flow	-	-	9	14	25	48	4.55	5
Regular conduct of internal audit	6	27	10	5	-	48	2.66	2
Management review periodical financial report	-	10	10	14	14	48	4	4
Ensures physical inventory of asset	-	8	10	14	16	48	4.16	5
Carry out monthly bank & account reconciliation	-	-	3	20	25	48	4.87	5
Overall Mean							4.10	

Table 11: SPSS output for internal control

According to Idrissu (2013), The Church by nature is supposed to be playing a major role in the quest for integrity and ethical values in the society today. Besides, the congregations want an assurance from the leadership that contributions they give sacrificially to the Church as their offerings are used prudently. On strong integrity and ethical values 6 (13%) of the respondents are neutral, 7 (15%) of the respondents agree and 35 (73%) of the respondents strongly agree that there is strong integrity and ethical values in the units. Majority of the respondents believe in its existence but few have question on it. This implies that still there are problems related with ethics in the church, though it is in a few areas. This may creates loose of beliefs of the members on the higher structures. The possible reason for unethical suspect is that lack of transparent use of funds.

Proper assignment of authorization and responsibility is one of the internal control components. 6 (13%) of the respondents are neutral, the other 6 (13%) of the respondents agree and 36 (75%) of the respondents strongly agree for proper authorization and responsibility of transactions. This area also one of strong area of internal control but needs to reach out the remaining few units to strengthen. The implication of existence of proper authorization and responsibility on transactions is that there is segregation of duties if financial procedures.

Clear and understandable organizational structure helps any organization for assignment of duties. Out of the respondents, 9(19%) of the respondents agree and 39 (81%) strongly agree on the existence of organizational structure. The result of the respond indicates that the church has strong organizational and functional structure with clear responsibilities and duties.

Concerning transparent and participatory management philosophy in the church, 6(13%) of the respondents disagree, 8 (17%) of the respondents are neutral, 11 (23%) of the respondents agree and 25 (52%) strongly agree. The church belongs to its members; thus, transparent way of doing its deeds is important as far as the will of creating belongingness in the members is there. The responds indicate as problem of transparency and participatory style of management exist in some units.

Preparedness to meet estimated future challenges is one of risk assessment component in the internal control; 10 (21%) of the respondents strongly disagree, 13(27%) of the respondents disagree, 18 (38%) of the respondents are neutral, 4 (8%) of the respondents agree and 3 (6%) strongly agree the preparedness to meet estimated future challenges. As the results show, the rate of work done on future potential financial challenges of the church is low. This indicates that if

challenges arise in future, economical preparedness of the church to tackle the problem is weak. Possible reason is that due attention is not given for future and plans are confined only to short run period.

Emergency fund is established for the purpose of uncertainties in the future and help to support if something happens on the units. Accordingly, 5(10.4%) of the respondents strongly disagree, 20 (41.67) of the respondents disagree, 20 (41.67) of the respondents are neutral and 3 (6.25%) Of the respondents agree on the established emergency fund in the units. Existence of emergency fund for nonprofit organization is very important as their financial resource much depends on contributions and donations of members. Donors or members may face unexpected natural and/or manmade calamities, which in turn negatively affects their livelihoods. The response indicates that though there is some movement to work on it, majority of the units still late to work and think over it. It is an implication of not working for future. Possible reason for this may be concern of short period issues rather than the future.

Conducting Continuous assessment of potential financial risk 11 (22.9%) of the respondents strongly disagree, 21 (43.75%) of the respondents disagree, 12 (25%) of the respondents are neutral and 4 (8.3%) of the respondents agree. This is also another weakness area of the church. Every organization is operating in uncertain future. This shows that to have potential financial risk in any conditions at any time. The response indicates that experience of risk assessment duties in the church is weak. Possible reason of this is that church by nature is working with prayers, hopes and dependent on God's mercy.

Proper authorization of transaction 5 (10.4%) were neutral to respond, 16 (33.3%) of the respondents agree and 27 (56.25%) of the respondents strongly agree. Transactions are authorized before payments in the church units. The respond indicates that the church has strong procedure in authorizing transactions. Inculcating procedures in minds of the authorized person might be possible reason for existence of proper authorization of transaction

Safeguarding of asset is one of the control activities elements of internal control. Proper keeping of records assists to safeguard asset. The response towards safeguarding of asset is that 7(14.58%) of the respondents are neutral, 14 (29.167%) of the respondents agree and 27 (56.25%) of the respondents strongly agree. Implication of proper keeping of records of fixed assets is that assets are secured in their existence in the church units.

Proper filing and retention of records 19 (39.58%) of the respondents agree and 29 (60.42%) of the respondents strongly agree on filing and retention of records. This implies that proper filing and retention of records are undertaken in the church. Periodical review of work flow by top level has response of 9 (18.75%) of the respondents are neutral, 14 (29.17%) of the respondents agree and 25 (52.08%) of the respondents strongly agree on top level reviews work. Here also the church has a good connection in review of work of its units by top levels. The council of the church review audited financial reports of the church units and approved; and also approved working budget of the church. Respective boards of the church units also review quarterly financial and activity reports of units.

Rober M. & et al, (2013) Regular conduct of internal audit is very important for an organization to prevent fraud and other related deeds. Thus, every unit should have internal audit activity. As per the response, 6 (12.5%) of the respondents strongly disagree, 27 (56.25%) of the respondents disagree, 10 (20.83%) of the respondents are neutral and 5 (10.41%) of the respondents agree that internal audit function is practiced in their units. On the average, lower result is seen on the internal audit area in the units. This was requested for explanation from higher officials' interview and the respond is that majority of the units afraid of budget for recruitment of internal audit. This may results in loose of more economic value than the opportunity cost feared from distance.

Management review periodic financial report because the role of management team in the units as briefed in the church's structure is to control routine activities and utilization of resolutions of higher bodies. Since financial report is the result of routine works, management is to do regular review of the results. Accordingly, 10 (20.83%) of the respondents disagree, 10 (20.83%) of the respondents neutral, 14 (29.17%) of the respondents agree and 14 (29.17%) of the respondents strongly agree. On average, periodical review of financial reports by management exists. This reveals that the management of the units are closely follow up their routine activities.

Inventory can be controlled in one of the two methods; i.e. perpetual inventory system on which records updated regularly to its balances and physical inventory system where the physical existence is known through count at the end of fiscal year. Ensuring physical inventory of asset is responded that 8 (16.67%) of the respondents disagree, 10 (20.83%) neutral, 14 (29.17%) of the respondents agree and 16 (33.33%) of the respondents strongly agree. Existence and occurrence of transactions are mainly insured by physical counts and proper record keeping of

assets. Implication of the respond is that keeping records of fixed asset is not yet implemented in few areas of the church units. Failing to do so may results in loosing of the assets. Five consecutive consolidated financial reports of the church shows that the issue of failure in maintaining fixed asset record has been raised in internal control memorandum notes of external auditors frequently. This implies that assets of the church units are not secured and vulnerable to theft and mismanagement.

Carry out monthly bank reconciliation and account reconciliation of the units is responded that 3 (6.25%) of the respondents are neutral, 20 (41.67%) of the respondents agree and the remaining 25 (52.08%) of the respondents strongly agree. The respond implies that monthly reconciliation of bank accounts is conducted with majority of the units. But few units could not do and tried to justify with reasons. The implication is that though there are reasons for unreconciled cash and other accounts such as receivable/payables, the units loses one way of better control for assets, especially liquid assets.

## **CHAPETER FIVE**

### **Summary of findings, conclusions and Recommendations**

#### **5.1. Summary of Findings**

The objective of the study was to assess financial management practice of the church in the case of the EECMY. This part summarizes the major findings of the analysis from practical identification of the church financial regulations, procedures, and activities.

The study used to assess the financial management practice of the EECMY with five elements i.e. accounting records, financial policy, financial planning, financial reporting and monitoring, and internal controls.

The study revealed that financial statements used by the church unit are confined to the balance sheet and income statement. Cash flow statement has not yet been practiced in the church. Complete set of financial statements in line with the IAS 1.10 and FASB 95 includes cash flow statement for non-profit-organizations. Though the importance of the cash flow statement is vital and may help the church more in cash management practice, fail to use or being late in exercising cash flow statement is a challenge for the church, as the church lacks the benefits of working with cash flow statements such as future forecasting of cash and planning of collection and uses of funds and investment decisions.

The study revealed that the church is following modified cash base system for accounting procedure, which violates international standards such as GAAP and IFRS. The proclamation number 847/2014 is one of the base to change financial standards in Ethiopia; as the proclamation enforce the use of international financial reporting standards for reporting and following.

The study revealed that lack of professional accountants in the church units is a challenge for the church. There is also high turnover of finance employees. This also creates problem of inconsistency in experience of personnel as the new comer comes with other exposure of finance duties. The church units also exposed for extra money spending to train the new employees. Unable to pay competitive salary is also the other challenge for the movement of finance staff. In addition to this, finance staffs are not entitled for additional benefits such as allowances, top up payments and incentives, for their duty is limited to office work.

The study showed that insufficient involvement of leadership in the church's resource management; the duties and accountability of the leaders is known that more of conceptual. This should not create gap on the involvement of resource management as some resources (such as investment on share companies, in financial institutions and fixed asset purchases) needs attention of leaders.

The study revealed that Revenue sources and expenditure uses are not clearly communicated within the structure. Local fund raisings from the church members and from investment earning is the most important agenda set in the church. Flowing of funds from top to down and from lower level to upper level is the policy of the church. But, the lower structures do not clearly disclose the collection as the accounting records are audited and closed with the elected audit committees of church members or a committee formulated on the parish levels.

The study revealed that periodical comparison of plan versus actual in budgeting is in weak position within the church units. Some of the church units have strong experiences and others still need to develop the culture.

The study indicated that though majority of the church units conducted external audit timely, there are few units that have not been audited in time or even not audited at all and presented their respective financial audit reports to the central office for consolidation. This hinders the consolidation financial statement not to represent the entire church picture.

The problem of inconsistency with ethical values in few units needs special attention by the church leaders and officials.

The study revealed that the risk assessment duties in the financial areas are not well developed: preparedness to meet future potential challenges is the area need attention as it counts lower value in the respondents answer. The work of establishing emergency fund among the units is by far weak. And continuous assessment of potential financial risk is not even known for majority of the church units.

The study reveals that internal audit is not practiced in majority of the church units. Though the reason behind this is justified as scarce resources for adding more staff, there is still option to have internal auditor if serious attention is given to the importance.

The study also revealed that periodic bank and account reconciliations have not properly undertaken in some units. Receivables and payables in the church units are the area where regular Internal control memorandum of auditors and sometimes are the area of qualification points of auditors.

## **5.2. Conclusion**

Despite of the fact that the potential conflict of sacred work with the secular nature of accounting practice, in the contemporary churches, the EECMY has both benefits and challenges in working with the financial management procedures, rules and regulations. The benefits are guiding church resources in efficient way, able to manage and led its mission with disbursed large resource in the country. The church could internalize the financial policies, procedures and internal controls for proper collections and disbursements of funds.

There are also weak areas that challenge the work of the church that need attention. The study indicated that not using all components of financial report (cash flow statement), financial policy weakness in using modified cash base instead of following international and nationally accepted financial policies, insufficient number of professional accountants, unclear revenue source and fund uses in the lower level structure, lack of periodical comparison of plan versus actual budget, risk of not audited financial statements, inconsistency with ethical values in few areas, lower risk assessment duties, absence of internal audit activities, and absence of account reconciliations.

## **5.3. Recommendations**

Based on the findings and the derived conclusions, the following possible recommendations to the EECMY and financial standard setting bodies are forwarded in order to overcome the challenges of church financial management practice:

- The EECMY should adopt and change its financial policy to updated and workable financial policy; modern financial policies are twined with the International Financial Reporting Standards.
- Cash flow statement should be introduced in the EECMY; so, improves cash forecasting and appropriate uses of funds.

- Risk assessment elements should be adopted in the financial management of the EECMY; this helps to forecast potential future financial challenges and creates preparedness and to shouldering potential hard situations.
- Widely usage of internal audit in the church units is important to strengthen internal control and to prevent potential risk of fraud.
- Regular and continuous trainings should be given to lower and middle level leaders on the basic fund collection and utilizations so that members' contributions and flow of funds secured in the planned channeled way.
- The church should work on capacity development on the area of finance through facilitating trainings for the staffs and through employing qualified staffs.
- Since nature of religious organizations are directly linked with the society and the society is major contributor to them, religious organizations are responsible for the appropriate use of contributions from members; thus, establishment of institution by the concerned body such as Inter-Religious Council of Ethiopia, as watch dogs to assists religious organizations with financial standard setting and ensure the flow of church funds in a designed way.
- Financial standard setting bodies should separate religious organizations from non-profit-making organizations and develop standards for religious organizations; since the nature of funds, documentations, the analysis and the situation of church funds are mainly different from non-for-profit making organizations and of course different from a profit making organizations.

#### **5.4 Suggestion for further research**

This research is limited to the case of the Ethiopian Evangelical Church Mekane Yesus, the study does not embrace other Christian denominations and religious organizations in Ethiopia. Therefore, the researcher would like to recommend further research on financial management practices in churches and religious organizations in Ethiopia.

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**Part I**

**General Information:**

1. Name of the church unit \_\_\_\_\_
2. Position \_\_\_\_\_
3. Gender: Male  Female
4. Work Experience in the church  
 0-5 Years  5-10 years  10-15 years  above 15 years
5. The number of employed professional experts who has finance background and work within the unit \_\_\_\_\_ .
6. Financial statements used by the church units
  - 6.1. \_\_\_\_\_
  - 6.2. \_\_\_\_\_
  - 6.3. \_\_\_\_\_
  - 6.4. \_\_\_\_\_

**Part II**

**On the following pages you will get questions regarding accounting record, financial policy, financial planning and forecasting, financial reporting and monitoring and internal control of the EECMY.**

Below are lists of questioners relating to the Financial Management Practice of the EECMY. Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from “Strongly agree” to “Strongly disagree”.

**Key:**

**SA = Strongly Agree**

**A = Agree**

**N= Neutral**

**D= Disagree**

**SD= Strongly Disagree**

**Elements of Financial Management**

<b>S.No</b>	<b>Accounting Records</b>	<b>SD 1</b>	<b>D 2</b>	<b>N 3</b>	<b>A 4</b>	<b>SA 5</b>
1	The unit uses financial software for transaction recording.					
2	The unit records and updated all financial events timely.					
3	Review of records is done timely.					
4	The unit follows GAAP/IFRS in its financial management					
5	There is clear filing and documentation system.					
6	Procedures of recording are stated on financial manual.					
	<b>Financial policy and Organizational philosophy</b>					
7	Financial policies and guidelines are utilized properly.					
8	There are clear Financial and administrative manuals.					
9	There are well trained and experienced staffs.					
10	There is strong leadership in resource management.					
11	Establish clear and decisive finance government.					
	<b>Financial planning</b>					
12	Finance staff is involved in annual budget preparation.					
13	There is appropriate and clear revenue sources and expenditure uses.					
14	The board approves the annual budget.					
15	There is planned cash forecasting and timely collection.					
16	There is periodical Budget comparison.					
17	Budget is flexible to be revised to the existing situation.					
	<b>Financial Reporting and monitoring</b>					
18	Preparing timely financial report to stakeholders.					
19	There is link of financial information with work plan.					
20	Satisfy stakeholders by appropriate financial reporting.					
21	Financial reports are examined by external auditors every year.					
22	Timely review of financial reports by board periodically.					
23	Board select and authorize an independent auditor for auditing					

**Internal control**

<b>S.no.</b>	<b>constituent to the elements of IC</b>	<b>SD 1</b>	<b>D 2</b>	<b>N 3</b>	<b>A 4</b>	<b>SA 5</b>
24	There is strong integrity and ethical values in the unit.					
25	There is proper assignment of authority and responsibility.					
26	There is clear and understandable organizational structure in the unit.					
27	There is a transparent and participatory management philosophy.					
28	Timely forecasting of cash and preparedness to meet estimated future challenges.					
29	The unit established emergency fund.					
30	Continuous assessment of potential financial risk conducted in the unit.					

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31	There is proper authorization of transactions					
32	Safeguarding of asset through updated recordings and easily traceable method.					
33	Proper filing and retention of records.					
34	Periodically top level reviews of work flow.					
35	There is a regular conduct of Internal audit in the unit.					
36	Management/leaders review periodical financial reports.					
37	Ensures physical inventory of asset regularly.					
38	Carry out Monthly bank reconciliation and account reconciliation.					

Please kindly state any other factors that affect investment decisions of the EECMY.

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I. Name of the church unit \_\_\_\_\_

II. Your position \_\_\_\_\_

Interview questions designed for Financial Management Practice of the EECMY

- 1) Do you have qualified finance staff in the church?
- 2) What are your main challenges in financial management practice of the church?
- 3) Does the church revise its financial policy and procedure regularly? If yes, what points are considered in revision?
- 4) As per the proclamation No. 847/2014 Ethiopia accepts International Financial Standards, what actions have been taken in working through it?
- 5) What kind of revenue sources the EECMY have?
- 6) Do all units present annual audited financial reports? If not, why?
- 7) What is the philosophy of the church towards budgeting, financial planning?
- 8) Does the church have written internal control procedures?
- 9) Any suggestions regarding the Financial Management practice of the church?