

The Intervening Effect of Internal Controls on the Relationship Between Budgeting Process and Performance of Churches in Kenya

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Abstract

Budgeting process and internal control are essential components of the financial management of an organization. The study sought to establish the intervening effect of internal control on the relationship between budgeting process and performance of Churches. Study findings have reported conflicting findings on the effectiveness of budgeting process and internal controls in Churches. Little attention has been paid to internal control as an intervening variable to budgeting process and performance of religious organizations such as Churches. Furthermore, not many studies linked budgeting process and internal controls to the performance of churches, and none combined the three variables in one study. It was hypothesized that there is no intervening effect of internal controls on the relationship between budgeting process and performance of Churches in Kenya. The study used positivistic research design and descriptive design. Collected data from 104 Churches in Kenya were analyzed using statistical tests and correlational analysis. Multi regression analysis was used to test the hypothesis. This study finds that Internal Controls have intervening effects on the relationship between budgeting process and the performance of churches in Kenya. The study further found that budgeting process and internal controls are adequately practiced in Kenyan Churches resulting to a positive effect on their performance. The study recommends that Churches integrate internal controls in the budgeting process for them to experience greater membership growth. Furthermore. Umbrella bodies should

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consider budgeting process and Internal Controls as they develop training materials for membership growth strategies.

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1. Introduction

Budgeting process, internal controls, and performance of Churches are topics that have drawn attention to researchers in recent times. Attraction to these topics is because of reported decline and growth of Churches resulting from diverse factors that include church financial management practices. Of interest to researchers is the performance of Churches and factors that could drive growth in their membership as a key measure of performance. Churches have used attendance and membership as indicators of growth and leadership effectiveness (Carter, 2009; McKenna and Eckard, 2009). Unlike in other organizations, the church goal is to increase numbers and win souls for the kingdom, and this explains why churches focus on membership growth more than other performance measures. However, Churches currently face significant challenges due to an ever-changing world that includes culture, technology, and behavioral patterns (Tanui, Omare, & Bitange, 2016; Boggs & Fields, 2010; Barna, 2000 and Rainer, 1993). To solve the challenges, Boggs and Fields (2010) assert that positive changes in organizational systems are necessary. However, organizations need to determine necessary system changes that have a greater impact on their performance. It is not uncommon for organizations to review stand-alone processes such as budgeting and performance without considering interrelatedness with other systems and processes. Internal control systems in an organization is an example that if considered along budgeting process could enhance performance.

According to Jacobs (2005) the perception of churches being unique lead to unstructured budgeting process in churches that is attributed to the sacredness of the ministry and the perception that accounting is secular and therefore less relevant. The unique nature of churches was previously supported by (Duncan, Flesher and Stock, 1999) who argued that Churches have unique characteristics that include the absence of stock ownership, a single measure of overall performance and professionals with little or no training in business management. However, McKenna and Eckard (2009) demonstrated in their study that membership growth can be a single measure of church performance. Pollock (2010) some priests argue that budgets limit God and therefore the process of budgeting in a church setting is viewed negatively. However, organizations that fail to confront the reality of money to obtain and account mission resources, compromise the fulfillment of their mandate (Irvin, 2005). According to Irvin, budgeting as an accounting tool is valuable in realizing the spiritual vision. On the other hand, internal controls play an intervening role of ensuring allocation and accountability

of resources with a view of increasing performance. Abdulkadir (2014) in his study on internal control in religious organizations found that there exist positive changes in performance for organizations with proper Internal Controls. As Nyakundi, Nyamita and Tinega. (2014) argued, the benefits of Internal Controls include effectiveness and efficiency of an organization's operation of which the level of internal controls in budget implementation impact on the performance and this applies to religious and nonreligious organizations.

Little attention has been paid to internal control as an intervening variable to budgeting process and performance of religious organizations such as Churches. The purpose of this study is to extend the research on budgeting process and internal controls in Churches by investigating the intervening effect of internal control on the relationship between budgeting process and the performance of Churches. The budgeting process is measured using budget characteristics namely; Budget planning, Budget Participation, Budget Communication and Budget Evaluation. Internal control is measured using five components namely Control Environment, Risk Assessment, Control Activities, information and communication, and Monitoring. Church Performance is measured using Membership Growth.

2. Literature Review

Studies have shown the importance of budgeting process to performance. Kamau, Rotich, and Anyango, (2017) argued that budget characteristics such as budget participation, sophistication, feedback and budgetary control, affect budget performance and budget participation had the greatest effect. The results were consistent with the findings by Lambe (2014) who focused on appraising the impact of budgeting and planning on the organizational performance and found that budgeting and planning significantly affected the performance. However, despite reporting a significant effect of budgeting process on performance Lambe (2014) found the level of budget participation was low, meaning that other factors of budget characteristics had a greater effect. Mohamed and Ali (2013) argued that strategic budgeting, participatory budgeting, budgetary control have a positive relation to firm performance and suggested participatory budgeting had a greater effect. According to Warue and Wanjira (2013), lack of budgeting and financial discipline lead to poor performance. They further argue that if workers are involved in the budgeting process, then the overall performance increases. While budget participation features prominently as having a great impact on performance, other factors such as culture may weaken budget participation and still result in good performance. The follows the findings by Hosen, Hui, and Sulimani, (2011) who focused on the relationship between the level of budget participation and firm performance found no significant association between the variables because of the influence of culture in the budgeting process. However Shields and Shields (1998) argued that budgetary participation enhance an employee's trust, sense of control, and

involvement with the organization, which then leads to more acceptance and commitment to the budget decisions and in turn causes improved performance.

Kimunguyi, Memba, and Njeru, (2015) argue that good budget management practices positively influence financial performance and recommended development and implementation of sustainable policies and regulations for budget management. This study was on non-governmental organizations and suggested lack or inadequate budget management policies in non-governmental organizations under which the Churches are categorized. It is unlikely that an organization would have good budgeting practice that influences performance without some guidelines on the budget process. As Tunji (2013) argue, the budgeting process is a continuous management activity and effective budgeting policies positively impact on the performance of companies alluding to the fact that lack or ineffective budget policies would have a negative effect on performance. According to Silva and Jayamaha (2012), efficient organizations maintained sound budgetary processes significantly contributing to higher performance and argued that accounting and finance professionals should focus and increase knowledge on the budgeting process to support managers in enhancing performance specifically. The study further found that Budgetary Planning, coordination, control, communication and evaluation had a positive impact on performance. Joshi *et al.*, (2003) reported the significant relation between budget planning, control, and performance and argued that the inability of the department and ineffective planning be the main reasons for failing to meet set targets. They also found that budget variance report was used to evaluate manager's abilities, timely recognition of a problem and to improve the next budget period. These studies show that budgeting process characteristics namely; budget planning, participation, communication, and evaluation are fundamental but differs on the level of effect to performance. Most studies focused on budget participation with little focus on other characteristics.

Studies have shown that internal controls play a vital role in organizations in preventing fraud and improving performance. There have been conflicting findings on whether effective Internal Controls (IC) exist in churches. According to Tanui et al. (2016) churches have weak internal control systems and this was attributed to lack of IC knowledge, shortage of staff, reluctance by management and resistance to adopting IC. The study is consistent to Magu and Kibati (2016) who argued that only competent and committed staff would strengthen internal control systems suggesting that organizations should recruit staff that meets this criterion. While most organizations view the main purpose of internal controls as fraud deterrent, studies such as (Ojua, 2016; Cornell, Johnson & Schwartz, 2013) no relationship between Internal Controls and occurrence of fraud among Churches. However, researchers such as Nyakundi *et al.* (2014) pointed out other benefits of Internal Controls that include effectiveness and efficiency of an organization's operation. According to them, Internal Controls ensure attainment of objectives, goals, and missions as quantified in financial terms. According to

Chebungwen and Kwasira (2014) institutions that entrench prudent Internal Controls, strategies are more likely to manage their finances better hence improving overall performance. Furthermore, Ahiabor and Mensah (2013) argue that for churches to produce accurate and reliable financial reports, churches need to adopt technology and introduce strong fraud prevention mechanisms.

Most studies on internal control in churches show weak systems. Studies such as (Tanui et al. 2016; Bowrin, 2004; Siino, 2004; Wooten, 2003; Duncan et al. (1999) reported that churches have inadequate internal control systems. Furthermore, Ventura and Daniel (2010) argue that trust rather than internal control systems are more prominent in churches while booth (1993) suggest weak financial management in churches due to the perception that church activities are sacred. Majority of these studies focused on internal control practices in churches with little link to the performance. Muraleetharan (2011) argued that organizations with strong risk assessment, control activities, and monitoring yield better financial performance than those with weak characteristics. By linking internal control systems to performance, researchers can determine the effect of the strong or weak system in Churches. The inclusion of internal controls in this study was to determine the intervening effect on the relationship between budgeting process and performance.

There is little consensus on how to measure church performance (Boggs and Fields, 2010). Unlike profit organizations, the church goal is to increase membership numbers and win souls for the kingdom without necessarily focusing on financial gain. Therefore, churches focus on membership growth as the best measure of performance (Carter, 2009; McKenna and Eckard, 2009). Studies such as (Ellas, 1997 & Watts, 1996) have used membership growth in their study. Bruce et al. (2006) found that churches likely to grow when worshippers are growing spiritually and see their leaders as empowering. The findings suggest that churches that invest resources in spiritual and empowerment of the worshippers are more likely to grow. This follows an assertion by Iannaccone et al. (1995) that suggested performing church as the one that adapts a model of growth that includes variables such as organizational goals and commitment. As Lau and Sholihin (2005) argue, adoption of nonfinancial performance measures such as leadership styles may lead to favorable job satisfaction because nonfinancial performance measures show consideration for subordinates' needs and interests, and act in a way that protects the subordinates' interests. According to Otley (2003), when monitoring their firm performance, managers tend to place relatively less emphasis on conventional financial measures of performance such as return on investment or net profit. Ongore and Kusa (2013) argue that management efficiency, capital adequacy, asset quality and liquidity management as internal determinants while economic variables such as growth rate, Gross Domestic Product (GDP) and Inflation are external determinants of performance.

3. Research Problem

Because of the sacred nature of churches, clarity on whether the internal control has an intervening effect on the relationship between budgeting process and performance remain unclear. In theory, accounting practices apply to all organizations including religious and Churches are no exception (Duncan et al. 1999). Accounting practices include budgeting process and internal controls, and they have an impact on the performance (Cammack, 2007). According to him, without strong financial processes creates future uncertainties and it may be impossible to predict and finance institutional activities. It is, therefore, expected that churches would have a strong budgeting process that would have a positive effect on the overall performance.

Previous studies have reported conflicting results on budgeting and internal controls in churches. According to Laughlin (1988), churches do not usually view budgets as binding on future endeavors, perhaps due to lack of appropriate accounting professionals in churches. However, Irvin (2005) reports that churches used budgets as a surrogate for the spiritual goals and for measuring success and accountability. Studies such as (Mohamed and Ali, 2013; Isaboke and Kwasila, 2016; Tunji, 2013) reported a positive relationship between budgeting and performance raising the question of whether studies on churches would have a similar result given their sacred nature of their operations. According to Ventura and Daniel (2010), financial disclosure in churches is infrequent, and church leaders trust their employees to act in good faith and integrity when managing financial resources. According to them, the infrequent disclosure does not alter the confidence members have on the leadership alluding that internal control systems are not strongly emphasized in Churches. Furthermore, in his study, Booth (1993) found that church leaders are ill-prepared to provide required financial management leadership within churches and elicited the current unresolved debate of whether accounting is an intrusion to the church ministry that creates conflict between the sacred and the secular nature of accounting.

Therefore, it remains unclear on whether financial processes such as internal controls have an intervening effect on the relationship between budgeting process and the performance of Churches. Furthermore, the debate on whether budgeting and internal control processes exist and are effective in churches is unconcluded. The study sought to answer the following question: - What is the intervening effect of internal controls on the relationship between Budgeting process and the performance of Churches in Kenya?

4. Study Objective

The study objective is to determine the intervening effects of Internal Controls on the relationship between budgetary process and performance of churches in Kenya.

5. Conceptual Framework and Hypotheses

The conceptual framework has three perspectives: First, the budgeting process perspective; which involves measurement of various budgeting process characteristics that affect performance and establishing the relationship between budgeting process and church performance. These features are budget planning, participation, communication, and evaluation, which were used to evaluate the budgetary process in the study. The budget characteristics have been used in previous studies such as Silver & Jayamaha (2012) and Joshi et al. (2003) and found as appropriate to relate with performance.

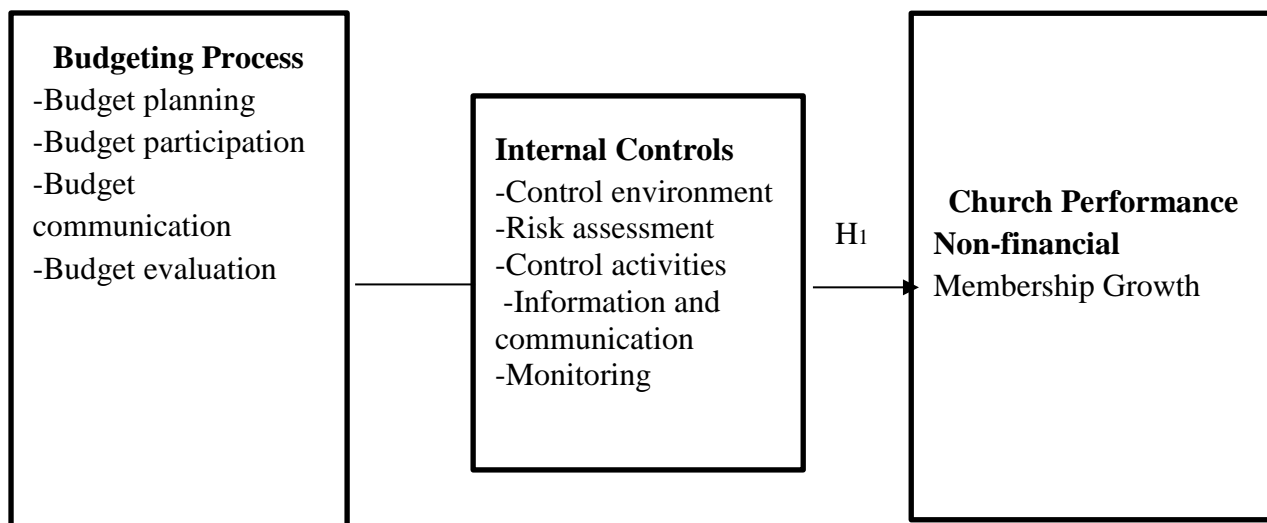
The second perspective is Internal Controls as an intervening variable. It was expected that the success of budgeting process on the performance of churches is mediated by the Internal Controls as an essential element in the planning process of an organization. The measurement of Internal Controls will involve characters; assessment of the control environment, risk assessment, control activities and monitoring. These characteristics were borrowed from COSO (1992) and are the most common features used in previous studies such as Tanui et al. (2016) and Muraleetharan (2013). Previous studies on Church Internal Controls such as Bowrin, (2004), have used similar components in their study.

The third perspective is organizational performance whose measure metric is membership growth. According to Boggs and Fields (2010) church growth is most appropriate and commonly used measure for performance in Churches. They argued that church’s long-term emphasis is on membership growth and expanded outreach. Other studies that have used growth as a measure are (Baumgartner, 1990; Ellas, 1997; McRaney, 1992; Watts, 1996).

Independent Variable
Variable

Intervening Variable

Dependent



H1: There are no intervening effects of Internal Controls on the relationship between budgetary process and performance of churches in Kenya.

6. Churches registered in the National Council of Churches of Kenya and Evangelical Alliance of Kenya

Churches are a community of those called to acknowledge the Lordship of Jesus Christ and to collaborate in historic mission for the coming of the Kingdom of God (McBrien, 1970). National Council of Churches of Kenya (NCCCK) is the national umbrella organization for Protestant churches established in 1913 to facilitate the united mission of the Christian Church in Kenya. NCCCK had 29 registered Church members as of December 31st 2016. EAK is the umbrella organization for evangelical churches in Kenya established in 1975 with a purpose of empowering the evangelical churches to bring God's transforming grace to the people of Kenya. EAK had 68 registered members as of December 31st 2016.

7. Methodology

The study use of positivist philosophy, as it allowed theory testing through the formulation of hypothesis. The correlational descriptive research design was used since the objective was to establish significance in associations among variables if existing at given point. Also, a cross-sectional survey was adopted because it provides a snapshot useful for planning for change and data collection occurred at one point in time to describe things as they are while extracting the idea of constructs at different times by adding variables. The population of this study was all churches registered as members of NCCCK and EAK. There were 29 and 68 registered church members in NCCCK and EAK respectively as at December 2016. Also, 11 non-member Churches were targeted in the pilot making an aggregate target of 108 Churches. Due to the small size of the population, there was no sampling, and the study was census meaning inclusion of all the churches registered under the two umbrella bodies. The unit of analysis was the church as a whole. The use of this unit of analysis is consistent with the stated objectives, and it took a top-down perspective on budgeting and internal controls of churches about performance (Irvin, 2005).

Both primary and secondary data collection were used in this study covers the period 2012-2016. The structured questionnaire was administered in hard copy and where requested, electronic version. Studies such as Khomba (2011) have used this approach and found it successful. The target respondents were top executive members from each of the churches. According to Jye & Castka (2009), senior executives appropriate respondents since they shape the destiny of organizations. Obtained church growth data

was from the Church’s register of members as at January 1st, 2012 and December 31st, 2016.

Summary of the study operationalization is as shown in Table 1.

Table 1: Operationalization of the Study Variables

Variable	Indicator	Measurement scale	Operationalization	Questionnaire Reference	Supporting Literature
Budgeting Process	Budgetary Planning	Interval	Extent of planning before budgeting begins	Q2.7C to Q2.7I	Kimunguyi et al., 2015; Mohamed & Ali 2013; Kamau et al. 2017; Silva & Jayamaha, 2012; Joshi <i>et al.</i> , 2003)
	Budgetary Participation	Interval	Extent of functional managers involvement in the budget process	Q2.7J to 2.7 N	
	Budgetary Communication	Interval	The extent to which budget information is available to staff.	Q2.7O to Q 2.7T	
	Budgetary Evaluation	Interval	Budget revisions	Q2.7U to Q2.7X	
Internal Controls	Control Environment	Interval	Extent to which processes and structures are respected in the organization	Q3.4A to Q3.4E	COSO (2013) Tanui et al. (2016) Magu & Kibati, 2016: Muraleetharan, 2013: Bowrin, 2004
	Risk Assessment	Interval	Process for identifying and analyzing risks	Q3.4F to Q3.4I	
	Control Activities	Interval	Policies and procedures that help ensure mitigation of risks	Q3.4J to Q3.4L	
	Information and Communication	Interval	Dissemination of information necessary to carry out Internal Controls responsibilities in support of achievement of its objectives	Q3.4M to Q3.4O	
	Monitoring	Interval	Ongoing evaluations used to ascertain Internal Controls are present	Q3.4P to Q3.4Q	

			and functioning		
Performance	Membership Growth	Ratio	Average membership growth for the past five years	Q5.1 & 5.2	Boggs and Fields, (2010); Baumgartner, 1990; Ellas, 1997; McRaney, 1992

The Data Analysis Model

Based on the conceptual framework, the study used multiple linear regression models as follows: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$

Where y = Performance

X_1 = Budgeting process

X_2 = Internal Controls

e = error term

8. Main Results

8.1. Descriptive Statistics

Table 2 below shows descriptive statistics on the budgeting process. The respondents were asked to rank responses under each characteristic on a scale of 1-5 where one strongly disagreed, and five strongly agree. The questions under each budget characteristic were designed to establish the level of practice in Churches. The aggregate mean was used to determine the percentage practice for each characteristic by calculating aggregate mean against the maximum score.

The results show budgeting process average mean of 80%. The average mean for each characteristic was: Budget Planning 85%, Budget participation 79% Budget communication 78% and budget evaluation 77%. The results further showed budget planning with a mean of 4.23, standard deviation, 0.700, skewness -.526 and kurtosis -.157 implying that distribution is flatter than normal and towards the left. Budget participation reported a mean of 3.96, the standard deviation of .847, the skewness of -.807 and kurtosis of .869, Budget communication a mean of 3.88, the standard deviation of .728, the skewness of 0.127, Kurtosis of -.405. The budget evaluation reported a mean of 3.87, the standard deviation of .860, skewness -.951 and Kurtosis 1.901.

Table 2: Statistics of Budgeting Process Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis		Practice
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error	
Budget Planning	104	4.23	.700	-.526	.237	-.157	.469	85%
Budget Participation	104	3.96	.847	-.807	.237	.869	.469	79%
Budget Communication	104	3.88	.728	-.127	.237	-.405	.469	78%
Budget Evaluation	104	3.87	.860	-.951	.237	1.901	.469	77%
Valid N (listwise)	104							80%

Source: Research Data 2017

Table 3 below shows descriptive statistics on internal controls. The respondents were asked to rank responses under each characteristic on a scale of 1-5 where one strongly disagreed, and five strongly agree. The questions under each Internal Controls characteristic were designed to establish the level of practice in Churches. The aggregate mean was used to determine the percentage practice for each characteristic by calculating aggregate mean against the maximum score.

The results show internal control in Churches had an average mean of 78%. The results from each component were: Control environment 82%, Risk Assessment 76% Control Activities 77%, Information, and Communication 75% and Monitoring Activities 78%. The results further show that control environment had a mean of 4.11, standard deviation .606, skewness -.050 and Kurtosis -.273, risk assessment a mean of 3.82, standard deviation .810, skewness -1.107 and Kurtosis 2.130. Control Activities a mean of 3.83, the standard deviation of .689, skewness -.305 and Kurtosis .207, information and communication a mean of 3.74, standard deviation .683, skewness -.554 and Kurtosis .543, monitoring activities a mean of 3.91, standard deviation .765, skewness -.516 and Kurtosis .229.

Table 3: Descriptive statistics on Internal Controls Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis		Practice
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error	
Control Environment	104	4.11	.606	-.050	.237	-.273	.469	82%
Risk Assessment	104	3.82	.810	-1.107	.237	2.130	.469	76%
Control Activities	104	3.83	.689	-.305	.237	.207	.469	77%
Information and Communication	104	3.74	.683	-.554	.237	.543	.469	75%
Monitoring Activities	104	3.91	.765	-.516	.237	.229	.469	78%
Valid N (listwise)	104							78%

Source: Research Data 2017

Table 4 below shows the frequency of Church Performance. Data from church reports was used to indicate their population as of January 1st 2012 and December 31st 2016. The results were then grouped into five classes relating to average growth for the last five years. The classes were below 20%, 21-40%, 41-60%, 61-80% and over 80% labeled as 1,2,3, 4 and 5 respectively. Results show that 87.5% of churches grew by between 21 to 40% and 20.6% by between 41-60%.

Table 4: Frequency of Church Performance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Below 20%	1	.1	1.0	1.0
21-40%	91	9.2	87.5	88.5
41-60%	11	1.1	10.6	99.0
61-80%	1	.1	1.0	100.0
Total	104	10.5	100.0	
Total	104	100.0		

Source: Research Data 2017

Table 5 below shows descriptive statistics on church performance. To determine the level of growth, each class was scaled between 1 and 5 indicating the number of churches in each class. The results show a mean of 2.12, the standard deviation of .377, skewness 2.367 and Kurtosis 7.601 meaning that majority of churches grew at an average rate of below 50%.

Table 5: Descriptive Statistics on Church performance Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Church Performance	104	2.12	.377	2.367	.237	7.601	.469
Valid N (listwise)	104						

Source: Research Data 2017

8.2. Correlational Analysis

Table 6 below shows a correlation between budgeting process, Internal Controls, and Performance of Churches. The Pearson's correlation for budgeting process on performance and Internal Controls was significant ($r=.564, p<.01$ and $r=.318, p<.01$ respectively). The correlation between Internal Controls and performance was also significant ($r=.480, p<.01$). There was no multicollinearity reported since none of the coefficients are greater than 0.8.

Table 6: Correlation between Budgeting process, Internal Controls, and Performance Correlations

		Budgeting Process	Performance	Internal Controls
Budgeting Process	Pearson Correlation	1	.564**	.318**
	Sig. (2-tailed)		.000	.001
	N	104	104	104
Performance	Pearson Correlation	.564**	1	.480**
	Sig. (2-tailed)	.000		.000
	N	104	104	104
Internal Controls	Pearson Correlation	.318**	.480**	1
	Sig. (2-tailed)	.001	.000	
	N	104	104	104

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

Source: Research Data 2017

Table 7 below shows regression result on the intervening effect of internal controls on the relationship between budgeting process and performance of Churches. Model 1 shows an adjusted R-squared of 0.311 taking into account the budgeting process against performance. When we add Internal Controls, the results indicate an adjusted R-Squared of .407 (40.7%) which is an increase from 31.1% which accounts for an extra 9.6% and was significant.

Table 7: Hierarchical Regression results on the intervening effect of the Internal Controls on the relationship between Budgeting and performance Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.564 ^a	.318	.311	.313	.318	47.519	1	102	.000
2	.647 ^b	.419	.407	.290	.101	17.500	1	101	.000

a. Predictors: (Constant), Budgeting Process

b. Predictors: (Constant), Budgeting Process, Internal Controls

Source: Research Data 2017

Results from Table 8 below show the F-ratio for the two models. Model one had an F-ratio of 47.519 while model two had 36.353 and in both cases $p < 0.001$. Model one had Adjusted $R = .311$, $F(1,102) = 47.519$, $P < .05$ and model two Adjusted $R = .407$, $F(1,102) = 36.353$, $P < 0.05$. The research findings, therefore, indicate that Model two significantly affects budgeting process on the performance of churches.

Table 8: ANOVA results of the intervening effect the relationship between Budgeting process and performance ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.645	1	4.645	47.519	.000 ^b
	Residual	9.970	102	.098		
	Total	14.615	103			
2	Regression	6.117	2	3.059	36.353	.000 ^c
	Residual	8.498	101	.084		
	Total	14.615	103			

a. Dependent Variable: Performance

b. Predictors: (Constant), Budgeting Process

c. Predictors: (Constant), Budgeting Process, Internal Controls

Source: Research Data 2017

The Coefficient result in Table 9 shows that the beta values for Budgeting process at 0.457 has a slightly more impact in the model than Internal Controls at 0.335.

Table 9: Coefficient Results on the intervening effect of Internal Controls on the relationship between budgeting process and performance Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.619	.219		2.826	.006
	Budgeting Process	.370	.054	.564	6.893	.000
2	(Constant)	-.051	.259		-.198	.843
	Budgeting Process	.300	.053	.457	5.714	.000
	Internal Controls	.238	.057	.335	4.183	.000

a. Dependent Variable: Performance
Source: Research Data 2017

The results from the two models show intervening effect of Internal Controls on the relationship between budgeting process and performance (Model 1 ($F(1, 102) = 47.519$, $p < .05$, $R^2 = .318$, $R^2_{Adjusted} = .311$), Model 2 ($F(1, 101) = 36.353$, $p < .05$, $R^2 = .419$, $R^2_{Adjusted} = .407$)). Positive change in $R^2_{Adjusted}$ is an indication of intervening effect. The analysis further show the variables significantly predict performance (Model 1 (budgeting process), Beta = .564, $t(.054) = 6.893$, $p < .05$ and Model 2 (Budgeting process), Beta=.457, $t(.053) = 5.714$, $p < .05$, Model 2 (Internal Controls) Beta=.335, $t(.057) = 4.183$, $p < .05$)

Based on the results, the inclusion of the intervening effects of Internal Controls improves the performance of churches by an extra 9.6%. It can, therefore, be concluded that the strength of the influence of budgeting process on the performance of churches is affected by Internal Controls. The null hypothesis is, therefore, rejected and the alternative hypothesis that there is the intervening effect of Internal Controls on the relationship between budgetary process and the performance of churches accepted.

9. Discussion

The study objective was to determine the intervening effects of Internal Controls on the relationship between budget process and performance of churches in Kenya. The study hypothesized that Internal Controls have no intervening effects on the relationship between budgetary process and the performance and growth of churches in Kenya. First, the study finds that both budgeting process and internal controls are practiced in Kenya

Churches. Secondly, the study findings show the positive intervening effect of Internal Controls on the relationship between budgeting process and performance. By demonstrating high mean in both budgeting process and internal control processes in Churches that resulted in good performance in membership growth means that both variables are as relevant to churches and religious organizations as they are to profit-making organizations. It also means that accounting in Kenyan churches is not perceived as an intrusion but rather part of a system for mission delivery. The positive intervening effect implies that Internal Controls plays a significant role in the relationship between budgeting and performance. It also means that while other factors contribute to the relationship between budgeting process and performance, the role of internal control in the relationship is significant. Churches, therefore, should focus on strengthening both Internal Controls and budgeting process for better performance in their membership growth. None of the variables should be ignored in the Church planning process. The results also imply that strong budgeting process without Internal Controls may impact performance negatively. The findings suggest that when Internal Controls components such as control environment, risk assessment, control activities, communication and monitoring activities are integrated into the budgeting process strategies, Churches will experience better performance in their membership growth.

There has been little focus on internal control as an intervening variable on the relationship between budgeting process and performance of Churches. However, studies on budgeting process, Internal Controls, and performance are consistent with the findings in this study. Nyakundi et al. (2014) in their study of the effect of Internal Controls on the performance of small and medium-sized enterprises in Kisumu concluded that significant change in performance is linked to Internal Controls and priority budgeting meaning that both budgeting process and Internal Controls are a factor to performance. Abdulkadir (2014) looked at the challenges of implementing Internal Controls systems in non-governmental organizations in Kenya and found that positive changes in performance are associated with proper Internal Controls and budgeting. Ahiabor and Mensa (2013) reviewed the effectiveness of Internal Controls on the finances of churches in Ghana and found there was a significant relationship. Muraleetharan (2011) in his survey of 35 selected organizations on Internal Controls and the impact of financial performance found that Internal Controls has a major impact on performance. Regarding the practice of Internal Controls in churches, these study results are consistent studies such as (Tanui et al., 2016; Wooten, 2003; Duncan et al., 1999; Siino, 2004) that concluded the existence of Internal Controls in churches. The study, however, disagrees with their assertion that churches have very weak Internal Controls. This study finds a high mean on the practice of Internal Controls of Churches in Kenya, and it can be concluded that Internal Controls in Churches are adequate and Churches are good stewards that reflect the level of growth. Furthermore, the study findings disagree with studies such as (Laughlin, 1988; Booth, 1993) that proposes division between the sacred and the secular arguing that accounting is perceived as an intrusion to the church ministry. This study, therefore, agrees with Irvin (2005) that

accounting is an enabler. Churches in Kenya have used budgeting and internal control process as complementary to the ministry resulting in significant membership growth for the past five years.

10. Conclusion

The study sought to establish the intervening effect of internal controls on the relationship between budgeting process and performance of Churches and finds a positive intervening effect. Budgeting process characteristics such as budget planning, participation, communication, and evaluation are as important to religious organizations such as churches just as they are to profit-making organizations. Internal Control components such as Internal Environment, Risk Assessment, Control Activities, Information and Communication, and monitoring apply to churches, and when implemented, they enhance the budgeting process leading to better performance. The study found adequate internal controls in churches covering all the internal control components. The control environment was highly practiced while information and communication were the lowest practiced. Further, the study found that budgeting process was highly practiced in Kenya churches and membership growth as an appropriate measure of church performance.

11. Recommendations and future research

The study recommends that Churches review and enhance existing Internal Controls policies and guidelines to strengthen Internal Controls process in Churches further. Churches that do not have Internal Controls policies should develop and implement them to experience greater membership growth. Dissemination and adoption of these Internal Controls policies and guidelines will enhance church growth in the long term. It is further recommended that church leadership integrate Internal Controls components in their budgeting process and performance strategies. The study further recommends that because of the importance of budgeting process and Internal Controls to membership growth, Church Umbrella bodies need to integrate both variables while training Churches on membership growth. These variables are recommended for inclusion in church growth strategies. Since the study used nonfinancial measure for performance, future studies should include both financial and nonfinancial to establish whether the budgeting process and Internal Controls have a positive relationship with financial performance. Future studies should also focus on establishing whether membership growth translates into financial growth of churches.

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APPENDIX II: QUESTIONNAIRE

This questionnaire aims to collect data on budgeting, Internal Controls, Organizational Characteristics and church performance for a Ph.D. thesis. You are requested to participate in the study by responding to the items given in the various sections.

SECTION A: CHURCH BACKGROUND

1.1.Name of the church

1.2.Please indicate your position in the church by circling below

- Bishop
- Priest
- Pastor
- Cardinal
- Other, specify

1.3.How long have you held your current position in the church? _____

1.4.Legal Status of the church?

- Registered under Societies Act
- Registered under Companies Act
- Other, specify

1.5.Year of registration in Kenya _____

1.6.Which umbrella body are you affiliated to? Please circle your answer below.

- NCCCK (National Council of Churches of Kenya)
- EAK (Evangelical Alliance of Kenya)
- Other,

specify _____

None _____

1.7.How do you categorize your church regarding polity? Please circle your answer below.

- Congregational (Direct government by the people who make up the congregation)

- Episcopal (Power in the highest ranking Bishop and delegated downward through the clergy)
- Presbyterian (Congregation governed by a group of elected leaders)
- Other,
specify _____

1.8. How many salaried employees do you have? _____

SECTION B: BUDGETING PROCESS

2.1. Does your church prepare a budget?

- a. Yes
- b. No

2.2. Does a budget committee exist in your church

- a. Yes
- b. No

2.3. Are you familiar with the budgeting process of your church?

- a. Yes
- b. No

2.4. Who is in charge of the budget preparation in your church? Please indicate the title of that person _____

2.5. What is the budgeting physical period of the church?

- a. Monthly
- b. Six months
- c. 12 months
- d. 24 months
- e. other, please specify _____

2.6. How would you classify the budget of your church?

- a. Fixed
- b. Variable budget
- c. Other, Explain _____

2.7. On a scale of 1-5 where: 5- strongly agree, 4- agree, 3- neutral, 2- disagree, 1- strongly disagree, State the extent to which you agree with the following concerning budgeting and budget process in your church

	STATEMENT	SA	A	N	D	SD
		5	4	3	2	1
	Budgeting					
A	The age of the church has helped improve budgeting process over time					
B	The size of the church has great effect on the budgeting process of the church					
	Budget Planning					
C	Budgetary guidelines are issued before preparing budgets					
D	The church has a budgeting committee.					
E	The budget committee is functional in my church					
F	Before budgeting, there are operational plans to establish the activities and budgets for each department in the church					
G	Before budgeting income sources and expenses are identified					
H	The churches budgetary goals are specific and clear in my church					
I	The budgeting process in the church adheres to the church's commitment to transparency and accountability					
	Budget Participation					
J	Every church committee member takes part in the budgeting process					
K	Every Head of Department take part in the budgeting process					
L	Every head of the department influences the final church budget.					
M	There is a no secrecy in the way the budgeting process is done					
N	Staff members are happy with budgeting process in my church					
	Budget Communication					
O	Good information flow is available for budgeting					

	Budget communication is accepted:					
P	Without caution					
Q	Without suspicion					
R	With reception					
S	Budget process leadership provided is effective					
T	Coordination among various departments during budgeting process is achieved					
	Budget Evaluation					
U	The church has set a budget variance percentage that has to be explained while reviewing variance reports					
V	Significant budget variance prompt budget revision during the year					
W	Corrective action is always taken on budget variance					
X	New activities during the year always prompt budget revision					

2.8.How frequently are the budget variance reports circulated to managers?

- Monthly
 Quarterly
 Semi-Annually
 Other (Please specify)_____

2.9.Who has authority to evaluate the budget variance?

- Department Head
 Budget Committee
 Top Management
 Any other (please specify) _____

SECTION C: INTERNAL CONTROLS

3.1. Does the church have a written, up-to-date accounting procedures manual?

Yes

No

3.2. Are the accounting records and underlying Internal Controls audited annually?

Yes

No

3.3. Is an audit committee operational?

Yes

No

3.4. On a scale of 1-5 where: 5- strongly agree, 4- agree, 3- neutral, 2- disagree, 1- strongly disagree, State the extent to which you agree with the following concerning Internal Controls in your church

	STATEMENT	SA	A	N	D	SD
		5	4	3	2	1
	Control Environment					
A	The organization demonstrates a commitment to integrity and ethical values.					
B	The board of directors demonstrates independence from management and exercises oversight of the development and performance of Internal Controls					
C	Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.					
D	The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.					
E	The organization holds individuals accountable for their Internal Controls responsibilities in the pursuit of objectives.					
	Risk Assessment					
F	The organization specifies with sufficient clarity to enable the					

	identification and assessment of risks relating to objectives.					
G	The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed					
H	The organization considers the potential for fraud in assessing risks to the achievement of objectives.					
I	The organization identifies and assesses changes that could significantly impact the system of Internal Controls.					
	Control Activities					
J	The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.					
K	The organization selects and develops general control activities over technology to support the achievement of objectives.					
L	The organization deploys control activities through policies that establish what is expected and in procedures that put policies into action.					
	Information and communication					
M	The organization obtains or generates and uses relevant, quality information to support the functioning of other components of Internal Controls.					
N	The organization internally communicates information, including objectives and responsibilities for Internal Controls, necessary to support the functioning of other components of Internal Controls.					
O	The organization communicates with external parties regarding matters affecting the functioning of other components of Internal Controls.					
	Monitoring Activities					
P	The organization selects, develops, and performs ongoing and separate evaluations to ascertain whether the components of Internal Controls are					

	present and functioning.					
Q	The organization evaluates and communicates Internal Controls deficiencies promptly to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.					

Section D: Performance

5.1 What was your church population five years ago (January 1st 2012)?

5.2 What's the current church population (December 31st 2016)?
