

## INCREASING ACCOUNTABILITY THROUGH INTERNAL CONTROL MECHANISM IN RELIGIOUS ORGANIZATION

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### Abstract

**Purpose:** This study aims to investigate the implementation of internal control in religious institutions, especially church institutions. A difference in church governance certainly differentiates the church's internal control, so the issue of internal control is very important and interesting for further investigation.

**Methodology:** This study used a sample of 100 churches. The researchers used questionnaires in data collection. The sampling method used is the purposive sampling method. To see whether there are differences in internal control between different church governance styles, the researchers used the chi-square analysis.

**Results:** The findings of this study are as follows: all churches have realized the importance of accountability that must be held to gain the trust of their congregants. Hence, all churches sampled in this study already have an internal control system. This study found differences in the systems based on church governance. Therefore, it is known that governance differentiates churches' internal control systems.

**Implications:** The implication of this research is that a church must have an effective internal control system. This is necessary because the church must be accountable to all of its stakeholders, especially the church congregants. The implementation of the internal control system may differ according to the church management system. However, the elements of the internal control system must be the same even though the process of implementing the internal control system is different.

**Keywords:** *Internal Control, Accountability, Religious Organization, Non-profit Organization, Church Organizations.*

### INTRODUCTION

To this moment, management control remains an interesting and important issue to study. Management control is one of the important components to execute organizational strategy ([Rahmah and Munte, 2019](#)); ([Simons, 1994](#)). An organization is not without managerial processes, which are: planning, organizing, to evaluations that will provide value to stakeholders. These processes are not exclusive from the highly benefiting role of management control to assist the achievement of the organization's goals. Non-profit organizations definitely need the role of management control ([Duncan, Flesher, & Stocks, 1999](#)). However, even though these organizations do not aim for profit, the organizations have to operate to ensure their service to the stakeholders is not compromised. The organization's accountability also becomes a crucial aspect for a non-profit organization because there are many supports from various parties, for example; the member of the organization, the philanthropists to the cause, the government, and even the organization's CSR. One of the efforts to maintain and improve the accountability of non-profit organizations is through improving the quality of internal control ([Randa, 2011](#)). Therefore, the internal control system is very crucial for non-profit organizations ([Kabuhung, 2013](#)).

This study uses religious organizations, which are church organizations. Church organizations (CO) have a number of unique aspects that other organizations do not possess, such as those mentioned hereinafter. CO has a few different types, such as Episcopal, Presbyterian, and Congregational, whereas each has its own way of management. Each church has a different number of church attendees, with a different age range that certainly affects the respective internal management systems of the churches. This study aims to investigate whether there are differences in internal management between the church management, the church membership, the number of attendees, the offering count, and the age of the CO. The urgency of this study is to identify the role of the church internal control in relation to church accountability. This study could help church managers to execute effective internal management. Hence, the result of this study is hoped to be beneficial for non-profit religious organization managers other than churches. This study gives a contribution to the development of accounting knowledge, specifically, in non-profit internal management, especially in religious organizations.

### LITERATURE REVIEW

Religious organizations have members who are also the financial contributor of the organizations, besides the external funding of the organization ([R. Santoso & Sugiarti, 2014](#)). Organizationally, the members of religious organizations formed it for a particular reason. They have the same vision in religious and humanity activities. In its function, religious organizations offer services to increase the members' holiness and offer services to the general community, such as community service ([Kalangi, Nangoi, & Kalangi, 2016](#)). Accountants see the aspect of how the managers of religious organizations manage their finance. Accountants will produce financial reports that will be used to account for the

organizational operation for their members, especially the financiers. Accounting also ensures that organization managers are able to execute their tasks efficiently and effectively in terms of ensuring the survival of the organizational operation.

The principle of CO accounting actually does not differ far from a profit-oriented organization system, because essentially accounting is always close-knitted and required by an organization, be it for-profit or non-profit. It can be simply concluded that every activity that is related to the cash flow will definitely be related to accounting. CO itself has implemented an accounting system, although not clearly stated as an accounting system. For instance, it is seen from how a CO manages the offering to fund the pastor's life, fund the sacristan, pay the utility cost of the church, purchasing the church's equipment to how the OC assembly reports the offering to the congregation in the weekly church report.

CO has to have a good accounting system. So, it produces financial reports that are transparent and reliable in its credibility ([Sukmawati, Pujiningsih, & Laily, 2019](#)). This is not to imply that the financial reports of OC thus far are not credible, but the financial reports may be of a higher quality and reliability. With a reliable CO accounting system, the administration will be more orderly, improving things that could impact efficiency and effectiveness, especially in finance administration ([Pramesti, Riyandini, & Pesudo, 2018](#)). There are indeed many benefits that a CO receives by having a reliable accounting system. A reliable accounting system contains tested internal control. The internal control in a CO, as with other organizations, is highly needed because it encompasses all measurements used, which are; maintaining the church's assets, assessing for accuracy, and the challenges of accounting the data of the church encourages efficiency and pushes the upholding of policies and rules of the church ([Maase, 2014](#)). Therefore, internal control management of a CO comprises of all the measurements provided to manage the CO with the aim to ensure that every aspect of the church functions accordingly.

### ***Accounting System and Internal Control***

CO as an organization possesses management functions that encompass the process of planning, organizing, directing, and controlling the entire resource of the organization ([Santoso, 2011](#)). The focus of this research is on the controlling aspect, whereby control is a process to ensure that the organization runs according to what is planned and has an identical purpose with what was set. Control cannot be separated from the accounting system that processes data into useful information in decision-making ([Mamesah, 2013](#)). The accounting system from the process point of view is a process of identification, measurement, documentation, classification, elaboration, summarization, and presentation of financial data into useful information for planning, controlling and operating the business ([Hall, 2008](#)). The result of the accounting system is the financial and non-financial report that is very useful in the decision-making of organizations ([Mamesah, 2013](#)).

These reports, in reality, contain information that is purposed for decision-making at every managerial level aimed to generally achieve the goal of the organization. Two things that appear to be related to the reports is whether the reports reported to the management are reports that are trustworthy and reliable, hence, are able to support decision-making that is done by the management ([Laughlin, 1990](#)). The following is whether the management utilizes the reports to improve lacks and weaknesses present in the organization, or to grow the organization. These two questions are not exclusive from the role of internal control within the organization. The reliability of reports produced can be achieved if there is effective internal control within the organization. An example of petty cash fund reports that are available within an organization will be accurate if there is effective control of petty cash fund within the organization. Hence, if an assessment was done, the data within the report will not be different from the respective physical cash report. Therefore, definite internal control is needed in order for related organizations to be able to reach the goals set. Internal control ensures that financial reports are trustworthy and consistent with existing standards as well as ensuring that the organization activities are run effectively and efficiently. Internal control will guard the asset against fraud, theft, and damage.

### ***Church Organization and Internal Control***

CO consists of a group of humans interacting with fellow members of the church or interacting with other non-church members ([Haryono, 2019](#)). The CO activities, be it from a spiritual or earthly perspective, is not independent of the need for a fund that is officially obtained from the participation of members or from external parties that have attention on CO's activities. With the accumulated offering, the church proceeds with its activities (spiritual or earthly) to achieve the goals that are set either by the congregation or church leaders. CO management is needed to make use of various resources that is available in the church, hence, there is an imbalance in the church ministry ([Dewi, Atmadja, & Adiputra, 2015](#)). Included herein are the three systems; Episcopal, Presbyterian, and congregational.

A CO as a legal non-profit organization and religious organization requires control because of a number of factors, as mentioned hereinafter ([Anindhita, 2017](#)). Firstly, the usual scope of CO activities or future activities will have branches that are spread out in a number of places. This condition causes the church management in assembly and the pastor to organizationally utilize available reports to supervise. The report has to be relevant, on time, trustworthy, and complete. Secondly, there is a limitation of management and management staff of the CO in executing their tasks, so mistakes might happen, especially in the church administration. Thirdly, there is a possibility of identifying, revealing, and solving mistakes systematically and completely. Fourthly, improving the scope of CO activities and the more complex problem within, so that the church assembly has difficulty controlling the organization of the church. Fifthly, improving

the service quality of CO so that the effectiveness and efficiency of service are increasingly important. Sixth, one of the responsibilities of the church assembly is to secure and guard the assets and possession of the CO from prodigality and fraud. Seventh, facilitating assessments be it by the internal party or external party of CO. These factors are aimed so that the church institution, which is a spiritual institution, achieves the goal that is correctly, effectively and efficiently set (R. C. Laughlin, 1988). The internal control system that is often present in a CO is the accounting system of income, expense, and bank reconciliation.

### Hypothesis

The management of a church significantly affects how the church is managed by the assembly or pastor. The difference in church management that is reflected from the church government will result in different finance management. For example, a Presbyterian Church managed by the assembly that is still connected with its synod is definitely different from a congregational church, in which the majority of the governor has the power to manage their selves. Duncan et al. (1999) found that there is a difference in church management between Presbyterian, Episcopal, and Congregational. Therefore, the first hypothesis of this study is:

H<sub>1</sub> = There is a difference in the internal control between church government control systems.

The organization that continuously develops will positively correlate with stricter levels of financial control. It is hoped to be the same for the church. The greater the attendees of the church, the financial control of the church will become even stricter. Hence, a church that has a higher number of attendees will have different internal control compared to churches with a smaller number of attendees. Duncan et al. (1999) found a difference in the internal control between big churches and small churches. Therefore, the second hypothesis of this study is:

H<sub>2</sub>= There is a difference in internal control between churches with a higher number of attendees and those with a lower number of attendees.

Church membership usually consists of churches that have similar management systems. A church that becomes a member of PGI has a unique characteristic that is different compared to those that join in PGLII, as in the case of other memberships. Hence, the different memberships have different management, so consequently could cause different control systems as well (Duncan et al., 1999). Therefore, the third hypothesis of this study is:

H<sub>3</sub>= There is a difference in internal control between different church memberships.

Organizations that have a large asset have higher internal control compared to organizations that have a small asset. Similarly, as larger funding surely demands a higher control. A church that has a larger offering will surely have a different internal control as well. Sukmawati et al. (2019) found that church offerings must be managed properly, as this showed the relationship between the total amount of offering with the financial management of a CO. Whilst, Patty and Irianto (2013) found that offering is a part of CO's accountability. Therefore, the fourth hypothesis of this study is:

H<sub>4</sub>= There is a difference in internal control between churches that have larger offerings compared to churches that have a smaller offering.

The more organizations operate in the longer term, the more complex the condition of the organization would be. These impacts on the increasing level of internal control of the organization. This condition is also hoped to happen in churches. In this sense, the longer churches exist, the more the number of members increases, the higher the church activities are, and hence, the more increased the internal control of the church. Therefore, the fifth hypothesis is as follows:

H<sub>5</sub>= There is a difference in internal control between churches based on the duration the churches have been established.

### METHODOLOGY

This study uses purposive sampling with a number of criteria, which are; the CO has been established for a minimum of five years, the church is the main church, has government-approved members within the CO, and the CO has a permanent pastor. The location of this study is located in the Yogyakarta Special Region. The respondents of this study are the parties that understand the CO's financial systems, which could be the pastor, the treasurer, or the assembly. The design of the study is divided into a few steps. The first step is to define the operation of the variables used, followed by the development of the research instrument that will be used, then data collection is conducted, and finally, the data is analyzed.

#### Definition of Variable Operation

In this study, there are a number of variables used:

1. The internal control is a process designed to ensure organizations achieve their goal that is relevant with effectiveness, trustworthy financial report, and in line with the regulations.
2. General control is a process designed to ensure general procedures that are done and used in the organization activities are in line with the regulation.

3. The cash income control is a process designed to ensure the cash income procedure of the church is in line with the regulation within the standard internal control system of accounting.
4. The reconciliation control is a process designed to ensure that the reconciliation of cash procedure with the cash at the bank is in line with the regulation within the standard internal control system of accounting.
5. The initial capital control is a process designed to ensure that the obtaining, processing and dispatching of initial capital is in line with the regulation of the standard internal control system of accounting.
6. The monitoring system is a process designed to ensure church managers execute the monitoring process regarding the entirety of procedures done in the church.
7. The management system of the church governments is Episcopal, Presbyterian, and Congregational (Sumakul, 2019).

The procedure of instrument development of internal control is created in the form of a structured questionnaire that is divided into seven parts:

1. General Control
2. Cash income
3. Cash expense
4. Reconciliation
5. Initial capital control
6. Monitoring

The researcher uses the Chi-square analysis to test the comparative hypothesis. In this study, the data is nominal and is collected from the calculation and not from the measurement.

## FINDINGS AND DISCUSSIONS

The data was collected and 100 respondents were successfully analyzed. From 100 respondents that filled in the questionnaire, 36% are pastors, 20% are church treasurers, and 44% is the assembly. Hence, the majority of the respondents in this study are the church assembly. If it is shown that the majority of church management in this study is Presbyterian, then the respondents of church representatives are church assembly, and it is understandable. This is due to the Presbyterian Church assembly holding an important role in managing the church. Presbyterian Pastors often have the position as the respective church's assembly leader, hence, it does not minimize the possibility that the parties who filled in the questionnaire include the pastors but also at the same time the relevant church assembly and even the church assembly leader.

Eighty-four percent of churches have been established for more than 10 years and 16% are aged between 5 (five) to 10 (ten) years. In this, the results collected are very useful because the sample taken is from churches that have long been established and this definitely influenced the quality of the internal control of the church. The duration of the years of church establishment in this study is appropriate with the sample calculation of church management; in this case, the most are Presbyterian churches. Presbyterian churches are majorly dominated by conservative churches. Hence, they were already established for a long time compared to charismatic churches that have not been long established.

According to the church management, the survey grouped 58% Presbyterian, 5% congregational, and 37% from others, including amongst them are Catholic churches. Therefore, respondents in this study are in majority churches that have Presbyterian management. This condition is in line with the position that fills in the questionnaire, in which the majority is the church assembly. In this, the assembly is widely managed in the Presbyterian system. This condition is also in line with the data that indicated that the church sample collected are churches that have long been established.

In analyzing the data, the researcher uses a statistic analysis of Chi-square analysis. This analysis is used to assess whether there is a difference between two or more research variables. The following is the result of the Chi-square analysis.

**Table 1:** The Result Table of Chi-Square Analysis

No	Description	Probability	Result
1	Managment & Internal Control	0.000	Significant difference
2	Members & Level of Control	0.000	Significant difference
3	Total & Level of Control	0.000	Significant difference
4	Offering & Level of Control	0.000	Significant difference
5	Years & Level of Control	0.014	Significant difference

**Source:** Processed data

The results in Table 1 indicated that there is a significant difference in the level of control between churches based on church memberships. This can be seen based on the probability value of 0.000 that is below 5%. Church membership that is different apparently has a different control system as well. However, this explanation is still very scarce because church memberships do not actually impact the unique characteristics of the respective church. Church memberships do not affect the government management of the church because church membership leans toward the motivation of the



churches to join certain organizations. Although, motivation to join a church could be affected by a similarity 'factor' from the church's uniqueness. For instance, a conservative church might join the PGI and remains there. There is a difference in internal control between different church memberships, and hence, H3 is accepted.

The results in Table 1 showed that there is a difference in the level of control between churches based on the total number of church members. This can be seen from the probability value of 0.000 under 5%. The total number of church members that keeps increasing will affect the offering, the activities, and the increase of church members' desires. This consequently affects the funding, asset, and other resources owned by the church, which would rise. Therefore, the internal control from the church would increase as well. Not only a great congregation needs high internal control but this also applies to smaller congregations. Small congregation churches can possess very weak internal control. First, the congregation and church manager have a very close relationship that can even become a familial relationship. Therefore, a close relationship can create a misuse of church assets. For example, lending transportation without responsibility, borrowing church money, purchasing church assets without proof, and others. Second, a congregation with a total number of small churches often worries about losing members, so supervision on the church assets is relatively weak. There is a difference in internal control between great congregation churches and small congregation churches, and hence, H4 is accepted.

The results from Table 1 demonstrated that there is a difference in the level of control between churches based on the amount of offers. This can be seen from the probability value of 0.000%, which is below 5%. One of the important factors in the church is the financial factor. Often, the biggest problem faced by churches is how to obtain the fund to pay for the church ministry and the routine church operational activities, as well as to manage the church finance properly, effectively, and efficiently. The offering amount that is relatively big will 'invite' many parties to use it wastefully, often even churches nowadays still use a conservative concept of Money spending, which is to use up the budget. Because of this, church internal control is highly needed to guard the asset against prodigality. There is a difference in internal control between churches that has a large amount of offers compared to churches with a small amount of offering, and hence, H5 is accepted.

Based on the results in Table 1, it can be seen that there is a difference in the level of control between churches based on the duration of the time established. This is shown based on the probability value of 0.014, which is below 5%. The increasing age of a church surely affects the increasing size of the church, be it in the asset, members, or the church's responsibility in relation to parties involved. Hence, the control within the church increases every year. This is very common because when an organization grows bigger, more control is needed. There is a difference in the internal control between churches that have been long established and those which are not, so H6 is accepted.

## CONCLUSIONS AND SUGGESTIONS

Based on the Chi-square analysis, it can be concluded that there is a difference in the level of internal control within a church based on the years the church has been established, membership of the church, the size of the congregation, monthly church offering, and church government management. This result showed that if a church has been long established, the higher the increase of members, which will, in turn, increase the amount of church offering that can affect the level of the church's internal control. This phenomenon is no different than in secular organizations. Organizations will have a level of internal control that differs if the size of the organization continues to increase, be it from the capital, profit, or the human resource aspect. The more an organization increases its activities, the use of resources will increase so the internal control must be increased to maintain the wealth of the church.

Based on the Chi-square analysis, it can also be concluded that there is a difference in the level of internal control between churches that possess government management that is different. Government management indicates how a CO institute is managed. The management that is different surely affects the management system and the procedure of the church. A church with Presbyterian management tends to be centralistic and is definitely different from churches with congregational management. This affects the management control that will definitely be different from church government management. This case is the same with that of secular organizations, which are managed through the centralization, as will differ with organizations that are managed through decentralization. The chi-square analysis also found that there is a difference between church memberships. Although, this relationship is still difficult to be analyzed deeper because the higher possibility of a significant difference might happen due to the uniqueness of each church that motivates similar churches to become members of a particular church organization. For example, churches that adopt charismatic denomination in the majority will join PGLII. However, churches that are not of the charismatic denomination in the majority will join PGI.

## SUGGESTIONS

For future researches, it can include a larger sample so that it can better represent more internal control of churches in Yogyakarta. Future researches can also be conducted on one synod so that the obtained results can be in the form of empirical literature on the internal control on related synod management. It is very beneficial for every church leader to be able to execute effective internal control.

In order for this research to have a more refined result, the research development can be done using a qualitative approach. In-depth interview methods can be implemented to dig deeper into the reason a church does internal control and comprehensively identify the cause of the high or low level of internal control of a church.

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