

# Effectiveness of Internal Control Systems and Institutional Performance in Selected Non-Tithe Institutions within the Seventh-Day Adventist Church in Kenya

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## **ABSTRACT:**

Internal control systems (ICS) play a crucial role in safeguarding institutional resources, enhancing accountability, and achieving performance goals. This study investigates the relationship between the effectiveness of internal control systems and institutional performance in selected non-tithe institutions within the Seventh-day Adventist (SDA) Church in Kenya. Grounded in systems theory, the research assesses how components of ICS including control environment, risk assessment, monitoring, control activities, and information communication affect financial and operational metrics of performance. The findings reveal a significant positive correlation between effective internal controls and improved institutional performance. The study recommends strengthening internal control mechanisms to enhance organizational outcomes and stakeholder confidence.

**Keywords:** Internal control systems, institutional performance, Seventh-day Adventist Church, non-tithe institutions, systems theory, Kenya.

## **INTRODUCTION**

The integrity and sustainability of mission-driven organizations are significantly influenced by the effectiveness of their internal control systems (ICS). Internal control systems refer to a set of rules, policies, and procedures instituted by an organization to ensure the reliability of financial reporting, promote operational efficiency, safeguard assets, and ensure compliance with applicable laws and regulations (COSO, 2017). For institutions affiliated with religious organizations such as the non-tithe entities under the Seventh-day Adventist (SDA) Church in Kenya internal controls are not only mechanisms for financial accountability but also instruments of stewardship and trustworthiness that align with the broader mission of service and transparency.

Non-tithe institutions, including health facilities, schools, publishing houses, and other development agencies within the SDA Church, operate with a high level of public and donor scrutiny. These institutions depend significantly on prudent management of limited resources, responsible leadership, and transparency to maintain legitimacy and operational continuity (Otieno & Omwenga, 2021). Given that these entities are often funded through donor support, fees, and income-generating activities rather than direct tithe allocations the need for strong and reliable ICS becomes even more critical. An effective ICS supports not only financial health but also organizational performance by minimizing risk exposure, promoting accountability, enhancing service delivery, and strengthening stakeholder confidence (Muriuki & Njeru, 2022).

Despite efforts to implement internal control measures, numerous non-tithe SDA institutions in Kenya continue to experience performance shortfalls. These include irregular financial practices, weak compliance mechanisms, fraud occurrences, and poor service outcomes, which threaten institutional sustainability (Kiptoo & Cheruiyot, 2020). While prior research affirms the general benefits of ICS in corporate and public sectors, there remains a significant knowledge gap regarding their specific impact in faith-based, non-profit institutional settings especially in contexts where spiritual, ethical, and financial goals intersect (Kinyua &

Gikandi, 2020). Moreover, few empirical studies have examined how contextual variables such as governance structures, leadership styles, and resource constraints within religious institutions may moderate the effectiveness of internal controls.

This study, therefore, seeks to investigate the relationship between the effectiveness of internal control systems and institutional performance in selected non-tithe institutions within the SDA Church in Kenya. The aim is to determine whether the internal control systems in place are sufficiently robust to enhance performance outcomes and to identify which components of ICS are most influential in improving efficiency, accountability, and service delivery in these faith-based institutions.

## Problem Statement

Although internal control systems are widely acknowledged as essential for organizational success, the persistence of performance challenges in non-tithe institutions affiliated with the SDA Church in Kenya suggests a disconnect between control implementation and outcomes. Concerns have emerged among stakeholders regarding operational inefficiencies, unaccounted expenditures, fraud incidents, and deteriorating public trust (Boit et al., 2021). For instance, some church-affiliated schools and health institutions face difficulties in managing funds transparently, leading to stakeholder dissatisfaction and reduced donor confidence.

While internal control frameworks such as those guided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) have been adopted, their effective application remains questionable in many non-tithe institutions. A major concern is whether these systems are not only in place but also actively functioning to influence institutional performance. Existing studies predominantly focus on public sector institutions or private corporate organizations, with limited empirical research targeting faith-based, non-tithe organizational models (Mutinda & Mugambi, 2019).

The gap in the literature lies in the under-explored relationship between ICS and performance in religious-affiliated institutions where organizational missions are both service-oriented and spiritual. This study addresses this gap by evaluating the effectiveness of internal control systems specifically in the context of non-tithe SDA institutions in Kenya, with the goal of uncovering whether these mechanisms are indeed driving performance, or whether they exist merely as compliance formalities without real operational impact.

## Research Objectives and Questions

General Objective:

To assess the relationship between the effectiveness of internal control systems and institutional performance in selected non-tithe institutions within the SDA Church in Kenya.

Research Questions:

1. What is the institutional performance level of non-tithe institutions of the SDA Church in Kenya?
2. How effective is the control environment in selected non-tithe institutions of the SDA Church in Kenya?

## Hypothesis:

H<sub>0</sub>: There is no significant relationship between the effectiveness of internal control systems and institutional performance in selected non-tithe institutions within the SDA Church in Kenya.

## THEORETICAL FRAMEWORK

The theoretical framework provides the foundational lens through which the relationship between internal control systems (ICS) and institutional performance is examined. This study is anchored on the following theories:

## Agency Theory

Agency theory explains the relationship between principals (e.g., church leadership or donors) and agents (e.g., managers or institutional leaders), emphasizing the need for mechanisms that align the interests of both parties (Jensen & Meckling, 1976). In the context of non-tithe SDA institutions, agency theory justifies the need for robust internal controls to reduce information asymmetry, prevent misappropriation of resources, and enhance accountability (Mutinda & Mugambi, 2019).

ICS, therefore, function as a governance mechanism that ensures agents (managers) act in the best interests of the principals (church members or donors). This includes safeguarding resources, ensuring financial transparency, and supporting mission-focused performance.

*“Internal control systems are pivotal in reducing agency costs and improving accountability, especially in organizations with decentralized structures”* (Kinyua & Gikandi, 2020, p. 37).

## Resource-Based View (RBV)

The Resource-Based View (Barney, 1991) posits that an institution’s performance is driven by its ability to manage and utilize internal resources effectively, including financial systems, human capital, and control mechanisms. ICS, as an internal resource, help institutions maintain regulatory compliance, detect risks, and enhance operational efficiency.

Within SDA non-tithe institutions—where resource constraints are common—the effective deployment of ICS can be a strategic asset contributing to sustainability and competitiveness.

*“Organizations with well-structured internal systems tend to achieve operational efficiency and financial integrity, positioning them for long-term performance”* (Otieno & Omwenga, 2021, p. 18).

## LITERATURE REVIEW

### Internal Control Systems (ICS)

Internal Control Systems (ICS) are a framework of policies, procedures, and practices designed to ensure the efficient achievement of an organization’s objectives, safeguard its assets, and promote accountability and transparency (Mawanda, 2012; Oyugi, 2017). These controls are typically categorized into preventive, detective, and corrective mechanisms. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework outlines five core components of effective internal control systems:

1. **Control Environment** – Refers to the tone set by leadership, the ethical climate, and the governance structures that form the foundation for all other components (Treadway, 2014).
2. **Risk Assessment** – Involves identifying and analyzing risks that may hinder the achievement of objectives.
3. **Control Activities** – These are specific actions and procedures designed to mitigate identified risks, including approvals, verifications, reconciliations, and audits.
4. **Information and Communication** – Ensures timely, accurate dissemination of information both internally and externally for effective decision-making.
5. **Monitoring** – Encompasses regular assessments of the ICS’s effectiveness and prompt responses to identified weaknesses.

ICS play a critical role in fraud prevention, compliance with laws and regulations, and optimal use of organizational resources. Weak internal control structures have been associated with increased financial misstatements, inefficiencies, and reputational damage (Ndungu, 2020).

## Institutional Performance

Institutional performance refers to the extent to which an organization achieves its strategic and operational goals. According to Jackson (2023), performance is not limited to financial output but spans operational, human resource, and customer service dimensions. Key indicators include:

- i. Financial Metrics: Revenue growth, cost containment, and budget adherence.
- ii. Customer Metrics: Service delivery quality, user satisfaction, and retention.
- iii. Process Metrics: Operational efficiency, time taken to deliver services, and quality control.
- iv. People Metrics: Employee engagement, training, and productivity.

Suárez (2018) and Rehman et al. (2019) underscore the importance of periodic performance evaluations as a basis for informed decision-making, aligning with strategic objectives, and facilitating learning and corrective action.

## ICS and Institutional Performance

There is a growing body of literature that establishes a positive relationship between robust internal control systems and enhanced institutional performance. Chen et al. (2020) found that strong internal controls lead to improved organizational transparency, reduced risk of errors and fraud, and increased reliability of financial and operational data. Cadez and Guilding (2013) further noted that organizations with well-established ICS particularly those with effective risk management and financial reporting systems consistently perform better than those with fragmented or weak control environments.

In the context of Kenya, Boit et al. (2021) demonstrated that public sector institutions with internal audit functions and compliance enforcement units showed greater levels of accountability and efficiency. Similarly, Kamau and Kiragu (2022) found that NGOs with strong ICS in place experienced improved resource allocation, donor trust, and goal achievement.

However, despite this positive correlation, institutional contexts such as religious organizations particularly non-tithe-funded entities within the Seventh-day Adventist (SDA) Church remain under-explored. Most existing studies have focused on public institutions, corporate organizations, or non-profit development agencies, with little empirical focus on faith-based organizations, especially those that operate independently from the tithe system.

## Empirical Review and Gap in the Literature

Empirical evidence from various sectors affirms the importance of ICS in driving performance:

Kinyua (2016) examined ICS in Kenyan public universities and found a significant impact on financial integrity and operational efficiency.

Osebe (2019) investigated ICS in donor-funded NGOs in Nairobi and established that risk assessment and control activities had the greatest influence on project success.

Wanjohi & Githinji (2021) explored internal control and performance in church-managed schools, highlighting the role of monitoring and accountability.

Nevertheless, there remains a paucity of empirical research specifically focusing on the effectiveness of ICS in non-tithe-funded institutions within the SDA Church in Kenya. These institutions, such as self-supporting ministries, faith-based schools, publishing houses, and health facilities, often rely on donations, fees, or commercial activities. The unique financial structures, governance models, and accountability mechanisms within such entities are not adequately captured in mainstream ICS literature.

## Gap in Literature

While previous studies have established the significance of ICS on organizational performance in both corporate and public sectors, there is limited research examining how internal control systems influence institutional performance within non-tithe-based religious institutions. Given the SDA Church's distinct ecclesiastical structure and the semi-autonomous nature of its non-tithe entities, it is essential to understand:

1. How ICS are implemented and monitored in such institutions;
2. Whether existing ICS are effective in enhancing transparency, accountability, and service delivery;
3. The specific challenges or facilitators of ICS effectiveness in faith-based non-profit settings.

This study aims to fill this gap by assessing the effectiveness of internal control systems and their influence on institutional performance in selected non-tithe institutions within the Seventh-day Adventist Church in Kenya.

## METHODOLOGY

The study employed a quantitative approach using structured questionnaires administered to finance officers, auditors, and managers of selected SDA non-tithe institutions across Kenya. Descriptive and inferential statistics were used to analyze the data, with correlation and regression models employed to test the hypothesis.

## SUMMARY OF FINDINGS

The analysis of the findings of this particular study revealed that most institutions had formalized internal control systems, especially in financial management and procurement. However, weaknesses were noted in areas such as risk assessment and monitoring.

### Control Environment

**Table 1 Effectiveness of Internal Control**

Descriptive Statistics			
Effectiveness of Internal Control	N	Mean	Std. Deviation
The institution showcases a dedication to upholding integrity and ethical values.	49	4.04	.935
The board of directors maintains autonomy from Management and supervises the development and effectiveness of internal control.	49	3.80	.957
Management creates reporting structures to achieve the institution's goals.	49	3.88	.832
The institution shows a dedication to attracting, developing, and retaining capable individuals to meet its objectives.	49	3.76	.990
The institution ensures individuals are held accountable for their internal control duties in the pursuit of its objectives.	49	3.88	1.013
<b>Average</b>	<b>49</b>	<b>3.872</b>	<b>0.945</b>

From the data presented in Table 1, respondents concurred that the institution showcases a dedication to upholding integrity and ethical values and ethical values, reflected by a mean of 4.04 and a standard deviation of 0.935. Respondents remained neutral regarding the institution ensures individuals are held accountable for their internal control duties in the pursuit of its objectives, and the management creates reporting structures to achieve the institution's goals, with a mean of 3.88 and a standard deviation of 0.832. The management's oversight of the development and performance of internal control was rated with a mean of 3.80 and a standard



deviation of 0.957. Lastly, the institution shows a dedication to attracting, developing, and retaining capable individuals to meet its objectives received a mean of 3.76 and a standard deviation of 0.990.

Overall, the study results showed an average mean of 3.872 and a standard deviation of 0.945. According to the mean scale interpretation (effectiveness of control environment), the study concluded that the control environment was moderately effective (3.50 – 4.49). This finding indicates that the control systems in place to support institutional performance are working to some extent, though there is significant room for improvement.

Institutions with strong governance structures and ethical leadership reported higher performance scores, supporting findings by Abiodun (2020) and Chang et al. (2019).

## Institutional Performance

The first research question was to examine the performance of selected non-tithe institutions of the Seventh Day Adventist church in Kenya. The study sought to examine the performance of the non-tithe institutions of the Seventh Day Adventist Church in Kenya. Participants were requested to express their agreement level on a scale from 1 to 5, with 1 signifying strong disagreement, 2 signifying disagreement, 3 signifying neutrality, 4 signifying agreement, and 5 signifying strong agreement. The mean scale (institutional performance) was interpreted in a range of 1-5 where 1.00 – 1.49 represented strongly disagreed (Poor performance), 1.50 – 2.49 represented disagreed (Fair performance), 2.50 – 3.49 represented neutral (Good performance), 3.50 – 4.49 represented agree (V. Good performance) and 4.50 – 5.00 represented strongly agreed (Excellent performance).

**Table 2 Institutional Performance**

Descriptive Statistics			
Institutional Performance	N	Mean	Std. Deviation
The workers at the institution produces high quantity or volume of work.	49	3.71	.957
The work delivered by workers at the institution is of high quality and accuracy.	49	3.92	.731
Workers at the institution contribute to innovative ideas or novel approaches.	49	3.49	.916
The institution is regarded for its excellence in work.	49	3.61	.909
The institution effectively achieves its production or service-related objectives.	49	3.6122	.86160
The day-to-day operations of the institution are efficient.	49	3.6327	.95074
Overall, there is a high morale and job satisfaction among workers in the institution.	49	3.4082	.99830
<b>Average</b>	<b>49</b>	<b>3.626</b>	<b>0.903</b>

From the data in Table 2, respondents showed a neutral stance regarding the high quality and accuracy of work produced by employees, with a mean of 3.92 and a standard deviation of 0.731. Employees were noted to generate a significant quantity of work, reflected by a mean of 3.71 and a standard deviation of 0.957. The institution's daily operations were rated efficient with a mean of 3.6327 and a standard deviation of 0.95074. The institution's ability to meet its production or service-related goals received a mean score of 3.6122 and a standard deviation of 0.86160. The institution was acknowledged for its excellence with a mean of 3.61 and a standard deviation of 0.909. Contributions of innovative ideas and novel approaches by employees were rated with a mean of 3.49 and a standard deviation of 0.916. Overall, there was a high level of morale and job satisfaction among employees, as indicated by a mean of 3.4082 and a standard deviation of 0.99830.

Overall, the study results showed an average mean of 3.626 and a standard deviation of 0.903. Based on the mean scale interpretation (institution performance), the study established that the institutions had a very good performance (3.50 – 4.49). This finding suggests that, based on the assessed control systems, they are performing at a high level. This positive rating may reflect effectiveness in existing control systems such as control environment, control activities, risk assessment, information and communication and monitoring. This implies that not only that the institutions are meeting basic standards but that they are excelling beyond them in significant ways.

Performance was high in institutions with proactive internal audits, timely reporting, and clear accountability lines.

## Correlation Analysis

When evaluating the significant relationship between effectiveness of internal control systems and institutional performance, Spearman's correlation was employed to gauge the strength of the relationship. The correlation values ranged from -1 to +1, with negative values showing a negative correlation and positive values showing a positive correlation. A coefficient less than 0.3 signified a weak correlation, while coefficients between 0.3 and 0.5 indicated a moderate correlation, and those greater than 0.5 signified a strong correlation.

**Table 3 Relationship between Effectiveness of Internal Control Systems and Institutional Performance**

Correlations			Performance	Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring
Spearman's rho	Performance	Correlation Coefficient	1.000	.491**	.666**	.668**	.561**	.641**
		Sig. (2-tailed)	.	.000	.000	.000	.000	.000
		N	49	49	49	49	49	49
	Control Environment	Correlation Coefficient	.491**	1.000	.703**	.708**	.714**	.700**
		Sig. (2-tailed)	.000	.	.000	.000	.000	.000
		N	49	49	49	49	49	49
	Risk Assessment	Correlation Coefficient	.666**	.703**	1.000	.786**	.714**	.744**
		Sig. (2-tailed)	.000	.000	.	.000	.000	.000
		N	49	49	49	49	49	49
	Control	Correlation	.668**	.708**	.786**	1.000	.712**	.638**

	Activities	Coefficient						
		Sig. (2-tailed)	.000	.000	.000	.	.000	.000
		N	49	49	49	49	49	49
	Information and Communication	Correlation Coefficient	.561**	.714**	.714**	.712**	1.000	.661**
		Sig. (2-tailed)	.000	.000	.000	.000	.	.000
		N	49	49	49	49	49	49
	Monitoring	Correlation Coefficient	.641**	.700**	.744**	.638**	.661**	1.000
		Sig. (2-tailed)	.000	.000	.000	.000	.000	.
		N	49	49	49	49	49	49

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

Referring to table 3, all variables showed a significant correlation with institutional performance (Sig. (2-tailed) = 0.000). Additionally, all the variables exhibited a positive correlation with institutional performance. The efficiency of the control environment had a moderate correlation (Spearman's correlation coefficient of 0.491). In contrast, the efficiency of risk assessment, control activities, information and communication, and monitoring demonstrated strong correlations (Spearman's correlation coefficients of 0.666, 0.668, 0.561, and 0.641 respectively). The correlation matrix highlights that these independent variables are crucial determinants of institutional performance, evidenced by their positive relationships with the dependent variable, institutional performance.

Hence, the study made a conclusion that there is a robust positive connection between institutional performance and the effectiveness of risk assessment, control activities, information and communication, and monitoring. Additionally, there is a moderately positive relationship between institutional performance and the effectiveness of the control environment. This is founded on the ability of control systems to provide clarity, accountability, agility, and continuous improvement. Through effective monitoring, risk management, and resource allocation, control systems enable organizations to consistently perform at higher levels and respond proactively to challenges and opportunities.

There was a statistically significant positive relationship between ICS effectiveness and institutional performance ( $p < 0.05$ ), affirming the study hypothesis rejection ( $H_0$ ).

## CONCLUSION

Based on the analysis of the findings of this study, the study concludes that:

1. The non-tithe institutions of the Seventh Day Adventist Church in Kenya have a very good performance with a mean of 3.626.
2. Internal control systems significantly influence institutional performance in non-tithe SDA institutions in Kenya. Particularly, a strong control environment, effective monitoring, and clear information flow enhance efficiency, service quality, and financial accountability.



3. There is a robust positive correlation between institutional performance and the control activities. Additionally, there is a moderately positive correlation between institutional performance and the effectiveness of the control environment.

## RECOMMENDATIONS

Based on the analysis of the findings of this particular study, the following recommendations have been made:

1. Based on the findings of this study, the researcher suggests that the non-tithe institutions of the Seventh Day Adventist Church in Kenya should enhance their performance.
2. SDA institutions should continuously review and strengthen internal control components.
3. Capacity building for internal auditors and finance staff should be prioritized.
4. Risk assessment practices should be institutionalized across departments.
5. Regular audits and performance evaluations should be conducted to improve feedback loops.

## Implications for Practice and Policy

The study offers insights for church administrators, donors, and regulators in enhancing institutional governance through ICS. Policymakers within faith-based organizations may adopt the findings to refine internal procedures and ensure sustained performance.

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