

Adequacy of Accounting Control of the Seventh-day Adventist Church Owned and Operated Secondary Schools in the Philippines

Elvie Sundalangi

Abstract

Education institutions, as any other non-educational organizations, are becoming errors and internal theft. Theft of assets is regarded as number one problem in the business community today. Therefore, an effective internal control system, particularly accounting controls (also called preventive or before-the fact controls) is needed. Accounting control is concerned mainly with (and relate directly to) the safeguarding of assets and the reliability of the financial records.

The objective of this study is to assess the adequacy of accounting control system in the Seventh-day Adventist (SDA) Church owned and operated secondary schools in the Philippines. The population of the study consisted of all SDA secondary schools in the Philippines. With 59% of the schools were included in the study. It was hypothesized that there are no significant differences in the adequacy of accounting controls of the schools when grouped according to internal factors: number or students/employees, years in operation, degree of automation, and budgetary support. Findings suggested that the accounting control of the Seventh-day Adventist owned secondary schools is adequate. The hypothesis was found to hold true with the exception of the last variable.

Keywords: *Internal Control, Accounting Control, secondary school*

Introduction

Organizations today have become increasingly aware of the problems that involve accounting errors and internal theft. They have become more concerned with these problems due to the tremendous loss of assets experienced by many organizations. Empirical study found that theft or assets is regarded as number one problem in the business community today (Flesher, 1996).

In the non-business community, this problem is also exists. It was reported that news of corruption hounded the Department of Education, Cultural, and Sports (DECS) of the Philippines government. Following this, Education Secretary Andrew Gonzalez had stated that the inefficient use of scarce resources is an age-old problem that remains to be solved (Tenorio, 1999).

Educational institutions like any other non-educational institutions whether it is for profit or non-profit face these problems too. Thus, an accounting control system is required. The presence of accounting control is one of the factors that will help ensure that actions are taken to address risks associated with the achievement of the objectives of educational institutions. The Auditing Standard and practices Council of the Philippines (ASCP, 1988) stated that accounting control comprise of the plan of organization and all the coordinated methods and measures adopted within a business to safeguard its assets and check the accuracy and reliability of its accounting data.

The secondary schools which are subject to this study, are the educational institutions owned and operated by the Seventh-day Adventist church in the Philippines. They represent a fraction of the private schools run by the religious groups in the country. They play a significant role in the educational of the Filipino youth because not all parents choose to educate their

children in the public schools. The establishment of the said schools is not for profit but for service with the objective of providing the student true education, which is the harmonious development of the physical, the mental and the spiritual powers (White, 1996).

Furthermore, the Seventh-day Adventists Education Policy Manual stated that while this may prove to be a terminal point for some, yet the quality and scope of training offered is to be of such a nature that its graduates can readily continue in further education on the college level.

B. Related Literature

Internal control can be categorized by objective into Accounting Control and Administrative control (Hollander, Denna & Cherrington, 1996). This study focuses on the prior which is accounting control.

Using a different term, Boockholdt (1996) explained that control activities, known previously as control procedures, are responsible for two main objectives of internal control, namely security of assets and records and reliability of financial information (Boockholdt, 1996). He further recognized four categories of control activities. These are:

1. Procedures for authorizing transactions.

This can be divided into two ways, using general or specific authorization. In the prior, it describes conditions under which employees may initiate, record, and process one kind of transaction. When these conditions are met, an employee is authorized to carry out these actions without further consultation with management. In the other hand, specific authorization applies only to a single, specific transaction where before an employee initiates a transaction, the employee consults with management and obtains approval specifically for it.

2. Security for assets and records.

This includes providing physical security and fixing responsibility for the assets. Physical security is the procedures that provide physical security for inventory, cash, property, plant, equipment, and for the records of these assets. Physical security, however, is only effective when there is fixed responsibility for it with specific individuals. In fixed responsibility, responsibility is assigned for specific assets and records to specific job position. Furthermore, control is better when responsibilities are in writing. That way employees are encouraged to do their jobs accurately and honestly.

3. Segregation of duties

No employee has the opportunity both to carry out and to conceal errors and irregularities in the normal course of their duties. Duties are assigned so that different people perform three critical duties concerning assets: authorizing, recording, and maintaining custody of the assets. In this way neither one of these three is in a position to steal inventory and then conceal the theft by altering the inventory records. At least two of these employees must collude to commit and successfully hide a theft of inventory.

4. Adequate documents and records

This requires the use of accounting documents and records that ensure proper recording of transactions and events. A double-entry accounting system, controlling blank forms and pre-numbering documents are examples that may help achieve this objective.

It is imperative for accounting data to be reliable, readily obtained and that “checks and balance” within the organization exist to be able to minimize inefficiencies and assures that the organization’s resources are safeguarded (Mejorada, 1998). In order to achieve these objectives, there should exist the following specific internal control procedures:

1. Checking on the arithmetical accuracy of the records.
2. Maintenance of reconciliation, control accounts and trial balance.
3. Comparison with external sources of information.
4. Comparison of cash and other non-cash assets with balances per account records.
5. Limited direct physical access to assets and records.
6. Comparison of results with budget.

Cash receipts and disbursements represent a large portion of the total transaction of a business as compared to any other asset. This makes cash most susceptible to theft and manipulation (Manuel, 1994). It is management’s responsibility that losses from theft are prevented, that there is accurate accounting of cash is maintained, and that there is no idle cash, which produces non income for the business. When cash is received through mail, an employee who opens it must list down the checks received and give a copy to the accounting department. For cash disbursements, the voucher system must be used.

A thesis by Manapar (1993) examined the strengths and weaknesses of the respondents internal control system. Among many of her recommendations are bonding requirements for cash custodian, forced annual vacation, mailing of statement of accounts, and the requirement for written confirmation and bidding of sizable acquisition. Furthermore, the schools should have an internal auditor who will make periodic reviews of each department and give recommendation for improvement (Manapat, 1993).

C. Research Question and Hypothesis

This study intends to assess the adequacy of accounting control system in the Seventh-day Adventist Church owned and operated secondary schools in the Philippines. Specifically, this study seeks to answer the following questions: 1) How does the internal auditing function ensure the consistency of the internal control system? 2) What is the degree of adequacy of the Accounting Controls in the respondent schools? 3) Are there significant differences in the adequacy of Accounting Controls of the respondent schools when grouped according to internal factors such as number of students, employees, years in operation, degree of automation dependence and budgetary support?

The hypothesis in this study is that there are no significant differences in the adequacy of Accounting Controls in the Seventh-day Adventist Church-owned and operated secondary schools in the Philippines when grouped according to internal controls such as number of students, employees, years in operation, degree of automation dependence and budgetary support.

D. Research Design

The researcher used the descriptive normative method in determining and analyzing the adequacy of accounting control of the respondent schools. The research instruments used to obtain the data needed for this study are: the questionnaires, personal unstructured interviews, and documentary research. The data gathered were organized and interpreted using the following tools. Percentage, weighted arithmetic mean, five-point Likert scale (not accomplished, very poor, fair, very good, and outstanding), and Kruskal-Wallis test (H-value) for testing the hypothesis.

The population of the study are the secondary schools owned by the Seventh-day Adventist Church in the Philippines. An adequate sample was taken using the purposive sampling technique with the criteria based on highest number of students and employees. These schools consisted of 55% North Philippine Union Mission schools, 75% Central Philippine Union Conference school and 57% South Philippine Union Conference schools. The individual respondents consist of the Principal, Vice Principal, Treasurer, Chief Accountant, Accountants and Cashier.

E. Findings

E.1. Assistance of the Internal Auditing Function

There is no internal auditor in the respondent schools due to the size of the schools. The Seventh-day Adventist Church however, has a special agency known as the General Conference Auditing Services (GCAS) who performs the audit function for these schools. These include reviewing the existing system of internal control, complete of update a control information form, and test transactions. In the light of the findings (see Table 1), the auditor's role in maintaining the relevance of the internal control system of the schools had an average weighed mean of 4.24, verbally interpreted as a high "very good". The weighted means ranges from a low of 4.40 to a high of 4.49.

Table 1
INTERNAL AUDIT FUNCTION

Internal Audit Function	Responses			WM	VI
	O	VG	F		
1. Internal audit exists within the organization.	7	5	1	4.49	VG
2. Internal auditor performs regular independent reviews of all related activities.	3	6	4	4.12	VG
3. Control practices are reviewed on a cyclical basis.	3	7	3	1.10	VG
4. Audit reports are regularly distributed to top management.	5	7	1	4.39	VG
5. Finding and other recommendations of audit are review with management on a higher level that the head of the audited org	5	7	1	4.31	VG
6. Reports are subjected to follow-up with an emphasis on the correction of deficiencies.	1	11	1	4.16	VG
7. Management relies on the audit reports, encourages corrective action, and regularly provides feedback.	1	11	1	4.12	VG
Average Weighted Mean: 4.24, Very Good					

E. 2. Adequacy of accounting controls

Accounting controls recognize four major categories, the summary of which is presented in Table 2.

Table 2
ACCOUNTING CONTROLS

Control Activities	Responses		WM	VI
	O	VG		
1. Authorization of transaction	5	8	4.42	VG
2. Security for assets and records	2	11	4.13	VG
3. Segregation of duties	2	11	3.93	VG
4. Adequate documents and records	4	9	4.40	VG
Average Weighted Mean: 4.22, Very Good				

Overall, the respondent secondary schools practiced fairly adequate accounting controls which is reflective of the high “very good” average weighted mean of 4.22, particularly in the areas of proper authorization and adequate documents and records, with weighted means of 4.42 and 4.40 respectively. Both are verbally interpreted as a high “very good”. The other two control activities, the security for assets and records and proper segregation of duties scored an average “very good”, reflective of the 4.13 and 3.93 weighted means.

E. 3. Differences in adequacy of respondent schools accounting control

The application of Kruskal-Wallis test of significance on the means of accounting controls revealed that when grouped according to number of students, number of employees, years in operation and, degree of automation dependence, the calculated H-values ranged from a low of 0.08 to a high of 0.06. in this case the H-values is lesser than 3.841 which is the χ^2 value at the level of significant 0.05 and the degree of freedom 2 minus 1 (see Table 3). This indicated that there were no significant differences in the adequacy of accounting controls of the subject schools when grouped according to number of students, number of employees, years in operation, and degree of automation dependence. Thus, the null hypothesis was accepted.

However, when the respondents are grouped according to budgetary support, the calculated H-values is 4.590 exceeded the value of 3.841. this indicates that budgetary support has a significant effect on the adequacy of accounting controls. Thus, the null hypothesis was rejected.

Therefore, it is safe to conclude that the adequacy of accounting controls do not vary significantly between less and more students and employees, young and old schools, and schools with high and low automation dependence. However, the adequacy of accounting controls varies significantly when the schools are grouped according to budgetary support.

Table 3
TEST OF SIGNIFICANCE IN THE ADEQUACY OF
ACCOUNTING CONTROLS
OF THE RESPONDENT SCHOOLS

Grouped according to	H-value	Verbal Interpretation
1. Number of students	0.13	Not significant
2. Number of employees	0.26	Not significant
3. Number of years in operation	0.08	Not significant
4. Degree of automation dependence	0.86	Not significant
5. Budgetary support	4.59	Significant
Critical value of χ^2 at $\lambda = 0.05$ and degree of freedom 2-1 of 3.841		

F. Conclusion and Recommendation

The assistance provided by the General Conference Auditing Service (GCAS) representative who performs the internal audit function for the schools is adequate. However, since the audit is performed on the schools at least once a year, and given the limited manpower in the schools, it is recommended that faculty member who is competent and has an accounting background could perform this function in providing a continuous evaluation of the schools' internal control system.

The general perception of the principal and the treasury staff of the secondary schools is that the schools practice a fairly adequate accounting control. However, there could be further improvement concerning the security for the assets and records. The researcher recommends the following examples. Physical security for assets and records could tend further improvement, particularly in the areas of taking periodic physical inventory count and comparing this to records, vital records are protected in fireproof storage areas, and backup copies are stored at separate location. Furthermore, strictly implement the separation of duties in the authorizing, recording, and custody of asset functions. Lastly, clear job description for each employee should be formulated, ideally discussed jointly by the treasurer and the employee. The employee should be formulated, ideally discussed jointly by the treasurer and the employee. The employee should have a copy of the job description and one copy is to be kept in the treasurer's file.

Elvie Sundalangi

Universitas Klabat Airmadidi, Manado

Bibliography

- Bookholdt, J.L., (1996). *Accounting Information System* (4th ed. Ed.). New Jersey: Richard D. Irwin, Inc.
- Flesher, D.L. (1996). *Internal Auditing: Standards and Practices*. Florida: Institute of Internal Auditors.
- General Conference of the Seventh-day Adventist Shurch. (1988). *International Accounting Manual*. Washington D.C.: Seventh-Day Adventist Church.
- General Conference of the Seventh-day Adventist Shurch. (1998). *Working Policy*. Washington D.C.: Seventh-Day Adventist Church.

- Hollander, A.S., Denna, E.L., & Cherrington, O.J. (1996). *Accounting information Technology and Business Solutions*. New Jersey: Richard D. Irwin, Inc.
- Manapat, G.J.O. (1993). *Accounting Information System of Catholic Schools for Girls in Metro Manila*. Unpublished MBA, University of Santo Tomas, Manila.
- Manuel, Z.V.C. (1994). *The Accounting Process* (4th ed. Ed.). Manila: Zenaida Vera Cruz Manuel.
- Mejorada, N.D. (1998). *Management Advisory Services* (3rd ed. Ed. Vol.2). Quezon City: JMC Press Inc.
- Tenorio, A.S. (1999, September). Education Reform Grapples with Crisis. *Business World*, 12, 7.
- White, E. G. (1996). *Spirit of Prophecy* (Vol. 2). USA: Academy Enterprises Inc.
- General Conference of the Seventh-day Adventist Shurch. (1988). *International Accounting Manual*. Unpublished manuscript, Washington D.C.