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Mosque fund management: issues on accountability and internal controls

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Abstract

This study is intended to discuss the issues in mosque fund management systems particularly on accountability and internal control practices. Mosques which are classified as Non-Profit Organizations deal with public funds received from government, corporate and public donations, control over the financial activities in handling funds received and expended by the organizations have become an interesting area to be investigated. Based on the discussion, it is suggested that internal control practices by Jameq Mosques on both receipt of income and funds disbursement require significant attention.

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Keywords: Mosque; Accountability; Internal Controls;

1. Introduction

The word masjid or mosque has evolved from the word sajada (sujud) which refers to devoted, loyal and with bowed heads with full respect and reverence. The mosque is not only a place of worship, but also a place to gain knowledge. It is also a place for communal gathering of the Islamic community members, as well as a place for holding various religious ceremonies and rituals, such as the akadnikah (wedding ceremony). Mosques are also places where religious studies take place, and where the younger generation of Muslim children would go for their religious training (Ismail, 2003). Basically, the main function of mosque is as a place of worship for Muslims. Besides, mosque functions as a one stop center for Muslims to do activities such as a center for Islamic knowledge,

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a meeting place for discussing Islamic issues and running Islamic activities. Mosques which are classified as Non-Profit Organizations (NPOs), deal with public funds received from government, corporate and public donations, control over the financial activities in handling funds received and expended by the organization, have become an interesting area to be investigated.

The key challenge of managing mosques today is to ensure efficient and proper financial management practices. At present, even though mosque is no longer used as a state administration center, their role in shaping society still continues. In Malaysia, mosque functions as a medium for transforming government Islamic policies within the society (Mohamed Adil, MohdSanusi, Jaafar, Khalid and Abd Aziz, 2012). Islamic programs and activities are carried out in mosques to instil and strengthen the Islamic values among community members. Proper management and supervision of the mosques facilitate the services to the community (Al- Dawarni, 2007). However, some criticism for mosque management are the lack of accountability to manage accounting system, less budget participation in the mosque and improper recording and reporting of income and effective way to find sources of income in mosque (Alim and Abdullah, 2010). In addition, a weak internal control system will increase the risk in managing the mosque performance and could influence the internal and external management control systems which will affect the financial management practices in mosque (Mohamed Adil et al., 2012). Therefore, the study is intended to examine the issues in mosque fund management systems particularly on accountability and internal control practices.

2. Accountability Issues in Mosque Fund Management

Numerous definitions of accountability have been offered by scholars and practitioners. For example, Edwards and Hulme (1996) define accountability as the means by which individuals and organizations report to a recognized authority are held responsible for their actions. Fox and Brown (1998), in their study of accountability in the World Bank and NGOs, similarly describe accountability as “the process of holding actors responsible for actions”. Meanwhile, Cornwall, Lucas, and Pasteur (2000) broaden this perspective by suggesting that accountability is both about being “held responsible” by others and about “taking responsibility” for oneself. As such, accountability has both an external and internal dimension. External dimension can be described as “an obligation to meet prescribed standards of behaviour” (Chisolm, 1995) and internal dimension is motivated by “felt responsibility” as expressed through individual action and organizational mission (Fry, 1995).

As NPOs play such a wealthy and varied role in modern society, the success of NPOs depends upon the public’s trust and confidence in their work. Palmer and Randall (2002) found that trust in the charities sector was at an all time low. This was supported by their study which found that 74% of the general public surveyed agreed that there should be needs to a tighter control over the laws governing charity affairs and most of them expected that funds given to charities would not all go to the NPOs beneficiaries. This finding suggests that accountability is still dominant and of paramount importance in the NPOs.

This argument also supports that the greater NPOs accountability should be seen as an opportunity and not a threat. Thus, enhancing the accountability mechanisms of NPOs may reduce any potentially socially damaging impact of those NPOs and may also reduce resistance from some corporations to improve their own social and environmental accountability (Unerman and O’Dwyer, 2006), hence maintaining continuous confidence and financial support of the public by giving an account of its charities’ activities.

Accountability is becoming increasingly important and is now being demanded of religious organizations in light of recent scandals and lawsuits (Keating, Elizabeth and Peter, 2001). Siino (2004) provided other examples of the abuses of funds arising from the lack of control and accountability mechanisms, including what happened in the Archdiocese of San Francisco, which filed a lawsuit against a defrocked priest for embezzling more than $250,000 to finance his vacation homes. In another case, a Pittsburgh pastor confessed to stealing $1.35 million in donations over 26 years from two churches that he had served. In a survey of 548 southern Baptist Churches, Siino (2004) found that Churches lacked basic control against mismanagement and abuse of Church funds. Furthermore, 70% of the Churches surveyed did not have written financial procedures. Twenty percent of the Churches did not require any written documentations at all before funds were disbursed. Only 22 percent required written explanation for budget variances, and only 52 percent reported the budgeted versus actual spending on a monthly basis. These are only some samples of recent cases of financial misconduct in religious organizations.
2.1 Accountability and Islam

Accounting in the broad sense is central to Islam, since accountability to God and the community for all activities is paramount to a Muslim’s faith. *Hesab* or 'account' is the root of accounting, and the references in the Holy Qur’an are to 'account' in its generic sense, relating to one's obligation to 'account' to God on all matters pertaining to human endeavour for which every Muslim is 'accountable' (Askary and Clarke, 1997). In this sense, every Muslim has an 'account' with Allah, in which is 'recorded' all good and all bad actions, an account which will continue until death, for Allah shows all people their accounts on their judgement day (S4:62). This adds an extra dimension to the valuation of things and deeds compared to those already embodied in conventional financial statements.

Thus the basic similarity between *hesab* in Islam and 'accounting' lies in the responsibility of every Muslim to perform duties as described in the Holy Qur’an. Similarly, in a business enterprise, both management and the providers of capital are accountable for their actions both within and outside their firm. Accountability in this context means accountability to the community (ummah) or society at large. Muslims cannot, in good faith, compartmentalise their behaviour into religious and secular dimensions, and their actions are always bound by the *shari'a*. Islamic law thus embodies an encompassing set of duties and practices including worship, prayer, manners and morals, along with commercial transactions and business practices.

Accordingly, accountability in Islam requires every Muslim to ensure that their activities in the world are in line with Islamic rule. “Man is accountable to God and his success in the hereafter depends on his performance in this life on earth” (Sulaiman, Siraj and Ibrahim, 2005). Indeed, this concept constitutes a core message of Islam, which applies to the political, social and individual realm. Clearly, Islam views the principle of accountability as comprehensive and applicable to all.

2.2 Accountability practices – evidence from Malaysia and Indonesia

Even though Islam promotes good governance and accountability, the actual practices leave much to be desired. The findings of a study by Rahim, Goddard and Andrew (2003) of Islamic State Religious Councils in Malaysia shows that there is a limited accounting role and that accountants play a minimal role in the financial decision making process. Furthermore, the accounting practices in the Islamic religious organizations are less developed and do not play a central role in the organizational activities. Accounting is regarded as little more than a technology to record financial transactions. In addition, the production of external annual financial statements is not considered an important process nor are the reports themselves considered important documents.

In another study, Antlov, Ibrahim and Tuijl (2005) examined NPOs governance and accountability in Indonesia, including Islamic NPOs. They found various weaknesses in Indonesian NPOs. The first is the issue of weak internal governance, which covers the organizations’ decision making process, the division of role between the board and executives, establishment of accountability mechanisms to constituents, as well as issues related to the development of clear vision, mission and objectives of the organizations. The second issue relates to the accountability of these organizations, both to the government and to the public. Until recently, NPOs mainly attempt to be accountable to donor agencies in the form of a narrative and providing financial reports on projects. The third is a lack of external relations with other NPOs and also the wider public. The fourth is the lack of management, including financial, strategic planning and programme development as well as human resources management. In their study, they also argue that the majority of NPOs do not have any criteria or parameters to track programme achievement.

One of the challenges to better accountability in religious based organizations is that much of their work deals with issues pertaining to the soul, which are not easily measured (Afifuddin and Siti-Nabiha, 2012). Their mission statements emphasize worthy goals such as spreading the gospel, saving souls and ministering to the poor, however, it is almost impossible to fully measure the results of these activities. One of the major products of religious organizations and their activities is the religion itself. How is it measured? It is very difficult to measure the true result of religious activities.
3. Internal Controls

With the development of many years, the internal controls have been involved in many fields. It is involved in not only the different types of organizations like companies, NPOs, but also all activities in every level of these organizations. Therefore, internal control exceeded the former internal control and accounting control. At first, the internal control is developed because of the need of management in company, and then, it is developed by the external auditing and macro control. Internal control has gone through the five stages—internal check, internal control system, internal control structure, internal control-integrated frame work and enterprise risk management-integrated frame work, which abide by the rules of development that is from simple to complex, from scattered to systematic.

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations (Cuomo, 2005). Not only related to accounting and reporting, these systems also relate to the organization’s communication processes, internally and externally, and include procedures for (1) handling funds received and expended by the organization, (2) preparing appropriate and timely financial reporting to board members and officers, (3) conducting the annual audit of the organization’s financial statements, (4) evaluating staff and programs, (5) maintaining inventory records of real and personal property and their whereabouts and (6) implementing personnel and conflicts of interest policies.

The effective implementation and monitoring of internal control system will ensure that NPOs such as religious organizations meet their objectives, such as providing services to the community professionally, while utilising resources efficiently and minimising the risk of fraud, mismanagement or error (Morehead, 2007). Internal control principles suggest that ICS is the primary accountability and governance tool an organization can establish and use to provide accountability to its stakeholders as well as to help deter, prevent, and detect fraud and corruption (ACFE, 2006, 2004; COSO, 1992).

3.1 Internal controls of Mosque

NPOs have some particular characteristics that distinguish them from business organizations, which mean that developing accountability mechanisms will be a challenge in these organizations. Lack of ownership and the absence of a profit motive in religious based organizations make these organizations more dependent upon the external environment for generating financial resources in order to operate. Furthermore, Afifuddin and Siti-Nabila (2012) state religious organizations do not have a control mechanism in place to protect their resources and keep their members informed of the organization’s financial status and fund raising efforts.

Sulaiman et al. (2008) found that, the embezzlement of funds from religious organizations (mosques) is more common due to lack of accountability and lack of commitment to accounting. They might misuse the power towards the funds raised. In this case, reporting management system such as budgeting, financial statement and internal control are not accurate, which will help the effectiveness of financial management practices in NPOs and reduce administrative burdens (Mohamed Adil et al., 2012). It is very important for the management to involve in financial management practices in NPOs to ensure performance evaluation and effective management (Aranya, 1990), especially their knowledge in preparing and presenting budget, controlling the fund and internal control in order to enhance its financial management of the organization.

The issue with internal control of NPOs is ensuring the efficiency and effectiveness of activities, reliability of information, compliance with applicable laws, and timeliness of financial reports (Jokipi, 2009). This is one possible reason why fraud and misappropriation of funds occur is poor. A proper internal control system ensures that the organization’s managers would utilize the financial resources in a way that will safeguard the interests of the donors and/or contributors (Sulaiman et al, 2008). Internal control structure includes policies and procedures on controls such as withdrawal applications for funds and grant accounts, bank and cash, purchases, payments and monitoring, evaluations and reporting. Monitoring of operations ensures effective functioning of internal controls (Amudo and Inanga, 2009).

Meanwhile Said, Mohamed, Sanusi and S.Yusuf (2013) state that mosque committees need to create an effective internal control strategy to improve financial performance. Good internal control enhances transparency of the mosque which consequently enhances donors’ confidence to contribute more fund to the mosque. Jokipi (2010) proved that lack of internal control has increased the number of business failure. Similarly, lack of control
management in mosque in reporting the transactions such as receiving income, authorization, recording of financial transactions, and periodic reconciliation will affect the report of financial performance. Proper internal control system will give better result in financial performance and show that measuring effectiveness of internal control will improve the programs carried out by the mosque (Said et al., 2013). Good internal control system such as disbursement of funds, recording and reporting receipt of income will affect the financial management practice in mosque and enhance donors’ confident to channel their money to the mosque. This in turn will improve its financial performance. Subsequently, mosques need to recognize the importance of fundraising activity. Active involvement of mosques’ committee members in fund raising activities facilitates continuous flow of fund to their mosque.

3.2 Internal controls on receipt of income and disbursing funds

As the procedures of handling funds received and expended by the organization is an important component to achieve sound internal controls, it is therefore important to evaluate the internal control practices on receipt of income and disbursement of funds due to the fact that religious organizations appear to have lack of expertise and commitment in practicing proper internal controls. Prior studies have suggested that the lack of regulations and a proper code of conduct with regard to accounting and financial management practices in churches (and other religious organizations) have contributed to their inefficiency. Duncan and Flesher (2002) also claimed that fraud and embezzlement are becoming more common in western church institutions. Controls related to physical custody of cash and cheques, segregation of duties, recording of transactions, and authorization of payments are the suggested control elements on receipt of income and disbursing funds (Sulaiman et al., 2008).

3.3 Solving issues in Mosque Funds Management

As accountability and internal controls are important issues in mosque fund management, it is suggested that internal control practices by Jameq Mosques on both receipt of income and funds disbursement require significant attention. Focus should be stressed on the elements of internal control practices in order to be at the accepted level. This could be done by strengthening the implementation in relation to segregation of duties, physical custody, recording of transactions, and authorization. Eliminating the weakness or problems identified may improve the control over the resources, strengthen accountability, improve financial reporting and improve relationship with the stakeholder, thereby enhancing their desire to continue supporting the religious organizations financially. Highlighting strengths and weaknesses also allow for a set of best practices to be collected and used to improve the internal accounting control system. Variables used in this research will come from various sources. In the process of finding the appropriate variable, prior literature on the topic of firm performance, financial leverage and financial distress have been carefully considered.

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