

Internal Control Systems in West Malaysia's State Mosques

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Abstract

The embezzlement of funds from religious organizations, particularly in western church institutions, is becoming more common. Such scandals have raised concerns about their internal control systems. Despite the lack of any reported financial scandals in mosques, there is a growing concern as to whether they experience the same deficiencies as other religious institutions do.

Our study examines the internal control procedures related to the receiving income and disbursing funds in West Malaysia's state mosques. A questionnaire survey and informal interviews were used to collect the data. The results indicate that these mosques have a strong internal control system vis-à-vis these two activities. This study also reveals that their practice of several basic control activities (e.g., segregating duties, recording financial transactions, and authorizing particular activities) is satisfactory. Though this is an exploratory study, the results may provide a benchmark for further studies examining internal control practices in religious organizations.

Introduction

Recent reports on the mismanagement of church funds have called into question the internal control system found in religious organizations.¹ In this

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article, an *internal control system* is defined as the policies and procedures put in place to ensure the protection of an organization's assets and the reliability of financial reporting. Implementing a proper system will help the organization's operations become more effective and efficient.² Studies examining the internal control systems of churches in the West have concluded that the lack of such a system may be attributed to accounting (and thus internal controls) being regarded as "secular" support activities.³ More specifically, R. Laughlin argues that the Church of England regards accounting as an activity that

... should not interfere with the more important spiritual endeavours of the Church of England. They are allowed to exist to assist the created internal resourcing units, but their role is clearly limited. Thus, parish accounting systems are rudimentary, precisely because they actually have no part to play in this clearly demarcated spiritual unit.⁴

Accordingly, it is no surprise that the church, more often than not, views internal controls as unnecessary and irrelevant.⁵ While there has been an increase in the number of studies examining churches' internal control systems, there has been a paucity of studies examining the same issue in mosques. Given that Islam, at least theoretically, does not separate what is secular and what is sacred, it would be interesting to determine if the lax internal controls present in churches also exist in mosques. More specifically, the two research questions of interest are as follows:

RQ1: Do state mosques in West Malaysia have adequate systems of internal control on the receipt of income?

RQ 2: Do state mosques in West Malaysia have adequate systems of internal control on the disbursement of funds?

This paper is part of a larger study examining the financial management practices of Malaysia's state mosques. Our article contributes to the existing literature in several important respects. First, as indicated earlier, previous studies on accounting and internal control systems in religious organizations have focused largely on churches in the West.⁶ Our study, which examines the internal control systems of Malaysia's state mosques, attempts to redress this. Second, in the case of western church institutions, the belief that human activities can be divided into the "sacred" and the "profane" was found to have contributed to lax accounting practices. Church members resist accounting,

because they do not think that it helps preserve their church's transcendental identity.

However, the same may not be true for mosques, since Islam (and therefore Islamic organizations) has no sacred-profane divide.⁷ Accordingly, the accounting practices and internal control systems prevailing in mosques may differ from those found in western churches. The results of this study may illuminate this issue to some extent. Finally, state mosques receive the bulk of their funds from the Malaysian government. Given this, it is expected that they will strictly follow the procedures laid down in the treasury instructions (TI [Malay: *arahan perbendaharaan*]) pertaining to custody of assets belonging to the state government. Whether this is actually happening in practice is a subject for empirical testing.

The remainder of the paper is structured as follows: Section 2 provides a background on Malaysia and how it administers Islamic affairs, section 3 describes mosques and their administration as well as the Islamic concept of accountability, section 4 discusses the research method, section 5 presents the results, and section 6 concludes the study.

The Background of Mosque Administration

MALAYSIA. Malaysia is made up of fourteen states: Negri Sembilan, Pahang, Perak, Selangor, Perlis, Kedah, Johore, Kelantan, Terengganu, Malacca, Penang, the Federal Territory, Sabah, and Sarawak. The last two are in East Malaysia, while all of the others are in West Malaysia.

Our study focused only on mosques in West Malaysia. With the exception of Malacca, Penang, and the Federal Territory, all West Malaysian states are ruled by the sultans. Malacca and Penang are ruled by the Yang Di Pertua Negeri, who enjoys the same status as the sultans, while the Federal Territory is under the federal government's jurisdiction. Islam is the country's official religion, and thus the government's involvement in disseminating Islamic teachings and instilling Islamic values among Muslim Malaysians is considerable. Government involvement, both at the federal and state levels, signifies the importance of Islam in shaping Malaysian society, which is more than 60 percent Muslim. Although Islam plays a significant role in Malaysian society, the country is multi-religious and practices religious tolerance.

The federal constitution delineates the power of the federal and state governments with regards to administering Islamic affairs. Each state government's power is restricted to administering the Shari`ah and Islamic affairs in its own particular state.⁸ More specifically, the federal constitu-

tion's ninth schedule states that, among other things, the administration of Malay customs and state mosques comes under the purview of the state governments. Accordingly, each state has its own methods of administering Islamic affairs and dealing with Malay customs. Consequently, this may contribute to the variations found in how the states implement and enforce the Shari`ah and administer Islamic affairs.

ADMINISTERING ISLAMIC AFFAIRS. There are two important organs in each state's administration of Islamic affairs: the Islamic Religious Council (IRC) and the Islamic Religious Department (IRD). The IRC is responsible for policymaking, and the IRD is responsible for carrying out the policies and procedures for developing and advancing Islam in each state. At the federal level, the Department of Islamic Development (JAKIM) coordinates the standardization of each state's method of administering its Islamic affairs.

The IRC is the state's highest authority with regards to devising policies to administer Islamic affairs. In addition, it promotes Islam's development and advancement in each state and advises the state rulers on all aspects of administering Islamic affairs. Apart from the key role of giving advice, most IRCs are actively involved in economic programs designed to benefit the state's Muslims. For instance, the IRC manages *waqaf* (endowment) properties. As for the zakah funds (wealth tax), most states have privatized their management so as to be more efficient and effective in collecting and redistributing these funds to the beneficiaries. For instance, the Selangor IRC established the Selangor Zakah Centre to manage the zakah funds collected on behalf of the state of Selangor. Other states (viz., Pahang, Kedah, and Kelantan) still collect and distribute the collected zakah funds through their respective state IRCs.

The IRD is responsible for developing and advancing Islam in each state. As regards administering Islamic affairs, the IRD plans, coordinates, and executes Islamic programs and activities designed to develop and advance Islam as outlined by the IRC. It also provides basic infrastructure, such as primary- and secondary-level religious schools and mosques, to serve the community. Generally, this department's administration comprises divisions entrusted with overseeing religious education, propagating Islamic teachings, operating the Shari`ah courts and the mosques, as well as undertaking appropriate research and development activities.

As indicated earlier, because each state administers its own Islamic affairs and Malay customs, these practices tend to vary. To minimize such variations, the federal government established the Islamic Affairs Division

(now renamed JAKIM) in 1968. Its primary objective is to strengthen efforts to develop and enhance the Muslims' achievements in Malaysia. As a central agency, it has also been tasked with enacting, standardizing, and coordinating the Shari`ah's implementation and enforcement as well as administering the states' Islamic affairs.

Mosques and Internal Control

In Islam, all places of worship are called mosques. The original Arabic word, *masjid*, means "a place for prostration." During the time of Prophet Muhammad (pbuh),⁹ this word referred to a house of worship, whether this was a church, synagogue, or temple. However, today *masjid* or *mosque* normally refers to a place where Muslims perform their daily, congregational, and weekly Friday prayers.

Although mosques were initially meant for religious purposes, their functions have evolved over time. For example, after Prophet Muhammad (pbuh) established the Islamic state in Madinah, mosques not only functioned as places of worship but also as administrative centers. Although they no longer function in such a capacity, their role in shaping society continues. In Malaysia, for instance, a mosque serves as a vehicle for transforming governmental policies within the society. Programs and activities with an Islamic input are carried out in mosques to instill and strengthen Islamic values among community members. Additionally, the proper management and supervision of mosques facilitates their services to the community.

Generally, Malaysia's mosques can be categorized as state, district, *qaryah*,¹⁰ and private mosques. While it would be interesting to study each type, due to time and cost constraints we chose to study only the country's state mosques. As this is an exploratory study and given that no published studies examine the internal control systems of mosques, this choice is fitting. Most importantly, given that state mosques are public-sector organizations, it would be useful to ascertain whether or not they have proper internal control procedures in place. Table 1 provides a list of West Malaysia's state mosques.

State governments manage state mosques through the relevant agencies and also finance their staff and operational costs. Any donations received from the public are used to finance part of the mosque's religious and social activities. Although most state mosques appoint mosque committees to manage their operations, such committees do not normally play an active role when it comes to managing the mosques' funds.

Table 1: State Mosques in West Malaysia

| No. | State | Name of State Mosque |
|-----|-------------------|--|
| 1. | Perlis | Masjid Negeri Perlis |
| 2. | Kedah | Masjid Zahir |
| 3. | Perak | Masjid Sultan Idris Shah II |
| 4. | Selangor | Masjid Sultan Salahuddin Abdul Aziz Shah |
| 5. | Negeri Sembilan | Masjid Negeri Negeri Sembilan |
| 6. | Malacca | Masjid Al Azim |
| 7. | Johor | Masjid Sultan Abu Bakar |
| 8. | Pahang | Masjid Sultan Ahmad Shah ke 2 |
| 9. | Terengganu | Masjid Abidin |
| 10. | Kelantan | Masjid Muhammadi |
| 11. | Penang | Masjid Negeri Pulau Pinang |
| 12. | Federal Territory | Masjid Wilayah |

MANAGING STATE MOSQUES. Traditionally, churches and other religious organizations are managed by people from diverse educational backgrounds who have very little knowledge of management or accounting. These organizations are run by governing boards or committees whose members do not always know their responsibilities and who are often insufficiently informed about the organizations.¹¹ Perhaps the same can be said of mosques in Malaysia. Here, two groups of people are entrusted with managing state mosques. The first group consists of salaried individuals employed by the government, namely, the mosque's officers, who are generally appointed by the IRD or the IRC. Usually, these are the *imam besar* (chief cleric), the imam (cleric), the *khatib* (Friday sermon reader), the *bilal* (muezzin), and the *siak* (mosque keeper) who, in general, perform only religious duties. The sole exception is the *siak*, who looks after the mosque's cleanliness. The other officers are responsible for ensuring that the mosque's programs and activities are properly organized and other specific duties. The second group, the mosque committee, is comprised of religious officials from both the IRC and the IRD, as well as representatives from various government agencies, who serve voluntarily.

Generally, Malaysia's state mosques are not autonomous with regards to managing their financial affairs. Their funds come from two sources: state government allocations and public donations. Through interviews with the

relevant officers, we ascertained that funds from donations constitute a mere 10 to 20 percent of the funds received from the state government.¹² The latter funds are used mainly to maintain the mosques and conduct religious activities; public donations are used to finance some religious and social activities that are not funded by the government. A good example of this is the mosque-sponsored feast and prayers for those of its members who are undertaking the hajj.

Since the funds are derived from two different sources, the relevant administrative procedures also differ. The state IRD administers those funds allocated by the state government, while the state mosque committee manages the public donations. However, as R. K. Edwards suggested, it is very difficult for the religious organizations to implement the appropriate segregation of duties and a proper system of internal controls, given their limited funds.¹³ This may, in turn, lead to a misappropriation of funds.

ACCOUNTABILITY. Given that the Islamic concept of accountability differs from how this concept is generally understood in the West, it is necessary to explore both of them before describing the internal control systems established for mosque funds. In Islam, accountability is viewed from two perspectives: humanity's accountability to God and humanity's accountability to other people (i.e., society). Furthermore, accountability is derived from the concept of *amanah* (trust),¹⁴ which, in turn, is related to another important concept: *khilafah* (vicegerency). Thus, people worship God and fulfill all of their duties as a *khalifah* (vicegerent). This may be regarded as their primary accountability.

A secondary accountability is established through a contract among people. More importantly, one's relationship with other individuals mirrors one's relationship with God. Simply put, one's transcendent accountability to God is the "vertical" accountability, and one's accountability to other individuals constitutes the "horizontal" or lateral accountability. Examples of the latter include agency contracts between owners and managers, employers and employees, and superiors and subordinates.¹⁵ Additionally, *khilafah* entails the understanding that the ownership of resources is an *amanah* from God. Thus, any financial resources made available to a state mosque's management committee constitute an *amanah*. In our study, the relationship that arises between the fund providers (viz., the donors, the congregation, or the government) and the state mosques' management committees are quite pertinent.

State mosques are funded by the state governments, except for the state mosque of the Federal Territory (funded by the federal government) and

Terengganu (funded by public donations). The State Treasury Department, with the assistance of the respective IRD, manages the funds of all state mosques funded by the various state governments. Accordingly, state mosque committees are only responsible for managing public donations. Therefore, their internal control systems conform to the financial management procedures laid out in the TIs as regards preparing annual budgets, disbursing funds, and reporting activities.¹⁶ Another important point that needs to be emphasized here is that funds allocated to state mosques are based on requests made by these mosques.

Given that state mosques receive their funds from the state governments, mosque committees are not directly involved in financial management. In fact, the financial controls related to budgeting and documenting the funds' disbursement are handled by the relevant IRD. Similarly, the state treasury handles such other activities as accounting, recording, and reporting on the funds' disbursement.

Funds collected from the public are generally placed under the individual mosque committee's purview, which functions as the funds' trustees and has full authority to manage public donations. However, exceptions do occur. For example, the state mosques of Selangor and Kedah are only responsible for collecting public donations; their disbursement is handled by the state IRC. In this case, the state IRC acts as the funds' trustee.

INTERNAL CONTROLS. As alluded to earlier, one possible reason why fraud and misappropriation of funds occur is poor (or the lack of) internal controls. 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. The Treadway Commission's Committee of Sponsoring Organizations defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance over the achievement of objectives regarding effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations."¹⁷

However, religious organizations appear to lack expertise in and commitment to proper internal control practices.¹⁸ Furthermore, previous studies have suggested that the lack of regulations and a proper code of conduct as regards accounting and financial management practices in churches (and other religious organizations) has contributed to their inefficiency.¹⁹ J. B. Duncan and D. L. Flesher claimed that fraud and embezzlement are becoming more common in western church institutions.²⁰ For example, the *Wall*

Street Journal reported that Roman Catholic priests and diocesan administrators misappropriated more than \$3.5 million within three years. Although churches and other religious organizations are built on the concepts of trust, honesty, and truthfulness,²¹ the ubiquitous fraud and embezzlement that occur within them indicates a need for instituting a good internal control system.

P. Booth further claimed that the lack of commitment to accounting and other management practices in churches is partly due to the division between the “secular” and the “sacred.”²² Accounting and internal control procedures are regarded as secular activities and, therefore, as secondary to sacred activities. Prior studies examining internal control procedures in western church organizations have identified various factors that can explain the lack of internal control systems in such organizations.²³ G. Woodbine and J. B. Duncan, D. L. Flesher, and M. H. Stocks argued that the degree of resistance to internal control systems, as well as areas of emphasis in controls, are influenced by the church’s denominational affiliation.²⁴ Woodbine posited that the controls’ effectiveness is also influenced by such socioeconomic factors as funding capacity, membership size, and staff demographics.²⁵ Similarly, Duncan, Flesher, and Stocks suggested that the design of the specific church’s internal control system depends upon the number of members and its governing rules.²⁶

The financial resources of West Malaysia’s state mosques are generally in the form of cash. Given that cash is most susceptible to theft and fraud, it is important that state mosques institute proper internal control systems to minimize losses.²⁷ More specifically, those systems related to receiving income should include physical custody, segregation of duties, authorization, recording of transactions, and periodic reconciliation of the funds.

In order to have adequate internal controls on the disbursement of funds, all payments (except those from the petty cash fund) should be made by check, as this provides a written record of each disbursement. Every transaction should also be verified, approved, and recorded before the check is issued. However, minor expenditures and payments in cash, made from the petty cash fund only, are acceptable. Given that cash is very susceptible to fraud and theft, the internal control system related to its disbursement should include physical custody, segregation of duties, authorization, recording of financial (cash) transactions, and periodic reconciliation.

Data Collection and Analysis

The data collection involved three stages. Initial telephone interviews were conducted to inquire about the nature of and parties involved in the finan-

cial administration of the twelve state mosques. We communicated with each one's *imam besar* or office administrator. These officers were able to provide most of the information we requested about the mosque's financial administration. During this initial stage, we discovered that two state mosques were not involved in administering the mosque funds – one mosque did not collect any donations from the public, while the other informed us that the state's IRD managed the donations. Accordingly, we excluded them from our study. Thus, our final sample consists of ten state mosques.

The second stage of data collection consisted of mailing out the questionnaire to these ten mosques. The second author personally collected the questionnaire from eight of the ten mosques. Due to time and financial constraints, we decided not to visit the state mosques of Johore and Malacca, but to conduct telephone interviews with the appropriate officers. The interviews were not designed to ask follow-up questions from the questionnaire. However, given that the second author personally collected the questionnaire, it was a good opportunity for us to ask the officers how they perceived the issue of accountability. More specifically, we wanted to examine if, indeed, a distinct divide existed between the secular and the sacred realms. Interestingly, all of the officers interviewed talked about accountability to God, besides their accountability to the government and the congregation.

During our site visits, we clarified questions that the respondents had found hard to answer and sought further clarification on general issues that may provide further insight on the mosque's internal control systems. In addition, these visits were invaluable in terms of confirming the respondents' answers. For example, we observed that the donation boxes were properly secured and that all checks were put in locked drawers.

RESEARCH INSTRUMENT. The questionnaire was composed of two parts. Part 1 focused on general information, such as the staffing of state mosques, existing committee(s), sources of funds, and the availability of written financial procedures. Part 2 concentrated on our research objectives: the internal control systems related to receiving income and disbursing funds. Two types of questions were designed to obtain this data. The first set, which focused on control systems, required respondents to check either "YES" or "NO" in the boxes provided. The second set of questions, which was designed as a very small part of the overall questionnaire, sought to obtain additional information on the control systems in place. In fact there were only two-open ended questions pertaining to cash receipt and dis-

bursement.²⁸ The questions on the internal control systems for cash are found in tables 2 and 4.

The questionnaire was adapted from audit working papers on internal control systems for cash. Accordingly, the questionnaire's reliability may not be a serious issue. However, a pilot study was done to test its validity. Given that the questionnaire was self-administered, the issue of "readability" may also not be a problem, as the second author was on hand to clarify all of the respondents' questions.

RESULTS. Given that the ten state mosques constitute almost the entire population of West Malaysia's state mosques, advanced statistical analysis was not undertaken. Only a descriptive analysis was performed. To preserve anonymity, we assigned each mosque a letter (from A to M). The results are summarized using frequency distribution tables. In analyzing the results, we first tabulated the number of mosques that answered "YES" to a particular control (see tables 2 and 4). In order to examine the extent to which each mosque had instituted an internal control system for the receipt of income and the disbursement of funds, we tabulated the results for each mosque (see tables 3 and 5). The average (AVE), discussed below, was then calculated and compared with the controls prevailing in each state mosque. Those mosques that had tighter controls performed better than the AVE.

RECEIPT OF INCOME. The important control systems for receiving income are physical custody of the funds, segregation of duties, and recording (see table 2, panels A, B, and C).²⁹ Physical custody is divided into three stages: collection, banking-in, and "safekeeping." Questions 1, 2, 4, and 5 are internal controls related to the collection stage; questions 8, 9, and 10 are internal controls for "banking-in"; and questions 11 and 12 focus on the "safekeeping" aspects. As table 2 indicates, nine of the ten state mosques have financial control systems for collecting and safekeeping funds.

At the collection stage, three control systems are implemented in all of the ten state mosques: collection boxes are sealed or locked, they can be opened only in the presence of at least two persons (minimizes the chances for theft or fraud and provides an additional check), and collections are counted as soon as the collection box is opened (a delay may lead to theft or fraud). However, there were instances where collections were not banked on the next working day, as stipulated in TI no. 78.³⁰ Such a delay may expose the money collected to opportunities for theft and misappropriation. Furthermore, only six of the mosques deposited the collections in the bank intact;

Table 2: Internal Control on Receipt of Income

| No. Controls | | No. of state mosques im- plementing the control | % of Fre- quency |
|---|---|--|---------------------|
| Panel A: Physical Custody | | | |
| 1 | Collection: Are all collection boxes sealed or locked? | 10 | 100.0 |
| 2 | Are all of these boxes opened regularly? | 9 | 90.0 |
| 4 | How many people are present during the opening of the collection boxes? | | |
| | i. One person | 0 | 0.0 |
| | ii. Two persons | 10 | 100.0 |
| | iii. More than two persons | | |
| 5 | Is the counting of money from collection boxes done promptly once opened? | 10 | 100.0 |
| 8 | Banking in: Are all monies received through public or congregational donations banked at least on the next working day? | 7 | 70.0 |
| 9 | Are all incoming monies banked intact? | 6 | 60.0 |
| 10 | Do you use incoming monies not deposited in the bank to pay any expenses (i.e without banking-in first)? | 5 | 50.0 |
| 11 | Safekeeping: Are all cash/cheques received placed in a safe place (e.g safe, locked box or locked drawer) if it cannot be banked on the same day? | 9 | 90.0 |
| 12 | Is access to the safe/locked box limited to authorized person(s) only? | 9 | 90.0 |
| Panel B: Segregation of Duties | | | |
| 6 | Is the counting the money from collection boxes done by a different person from the person who makes entries in the cashbook? | 7 | 70.0 |
| Panel C: Recording of Transactions | | | |
| 3 | Recording: Does the mosque maintain a cashbook for cash/cheques received? | 10 | 100.0 |
| 13 | Are checks conducted to ensure the incoming receipts are recorded regularly? | 7 | 70.0 |
| 14 | Verification: Are cash/cheques recorded in the cashbook verified with the bank pay-in slips regularly? | 8 | 80.0 |
| 15 | Are the pay-in slips and/or cash receipts recorded in the cashbook verified with the relevant bank statements? | 8 | 80.0 |

the others used part of the money to meet small cash expenditures due to the absence of a petty cash fund.

On the segregation of duties, seven state mosques assigned different people to count and record the collections in a cashbook. The absence of this control system in the other three mosques was due to a shortage of staff. However, discussions with the relevant personnel revealed that this was actually the result of a lack of sufficient knowledge concerning the importance of the relevant internal control systems. This appears more likely, since state governments normally do not turn down requests for funds to engage more staff and thus institute proper internal controls.

The proper recording of financial transactions is necessary, for it provides a proper audit trail. Ensuring the accuracy of the recorded transactions also means that the recorded transactions have to be verified, an equally important task. Accordingly, the recording aspect includes verifying the transactions. Questions 3 and 13 are related to recording financial transactions; questions 14 and 15 are for verification controls. Ten of West Malaysia's state mosques recorded their financial transactions in the cashbook, but only seven of them conducted spot checks to ensure that all financial transactions were recorded on a regular basis. One problem that may arise when the recording of financial transactions is delayed is that the transactions may not be recorded at all. Subsequently, this will lead to theft or the misappropriation of funds. As for the verification controls, eight state mosques both recorded and verified the recorded transactions on income receipts.

Table 3 shows the extent to which each mosque instituted internal controls for receiving income. As alluded to earlier, the overall average (AVE) was then calculated as follows: "AVE = (Total score of controls actually implemented divided by Total score of controls that *should* be implemented) x 100."³¹

Table 3: Internal Control on the Receipt of Income for Each State Mosque

| State Mosques | Controls for Each Mosque (Max = 14) | % of Scores | State Mosques | Controls for Each Mosque (Max = 14) | % of Scores |
|---------------|-------------------------------------|-------------|---------------|-------------------------------------|-------------|
| A | 11 | 78.6 | G | 10 | 71.4 |
| B | 12 | 85.7 | H | 14 | 100.0 |
| C | 11 | 78.6 | J | 13 | 92.9 |
| E | 10 | 71.4 | K | 14 | 100.0 |
| F | 10 | 71.4 | L | 11 | 78.6 |
| Total: 116 | | | | | |

$$\text{AVE-I} = (116/140) \times 100 = 82.8\%$$

On average, West Malaysia's state mosques implemented 82.8% of the control procedures related to income received. Four of them, namely, B, H, J, and K, implemented more than 85% of the control systems, and the rest implemented more than 70% of the control systems.

DISBURSEMENT OF FUNDS. The internal control system related to disbursing funds is divided into three activities: authorization, segregation of duties, and physical custody. As table 4 shows, all state mosques use payment vouchers to authorize each disbursement. However, these documents vary from one mosque to another and depend upon the type of payment, as not all documents are common for all payments. For example, a quotation is only required to support payments above a certain amount. In other instances, acknowledging deliveries was simply recorded on the invoice rather than on a separate delivery note or order.

Table 4: Internal Control on Disbursing Funds

| No. Controls | No. of state mosques implementing the control | % of Frequency |
|---------------------------------------|---|----------------|
| Panel A: Authorization | | |
| 1 | The payments are supported by documents such as: | |
| | i. Quotation | 70.0 |
| | ii. Purchase order | 70.0 |
| | iii. Invoice | 90.0 |
| | iv. Delivery note/order | 60.0 |
| | v. Others: _____ | |
| 2 | Are payment vouchers prepared when making payments? | 100.0 |
| 6 | Are there any limits imposed on payment approvals at various levels of the committee members/staff of the mosque? | 50.0 |
| Panel B: Segregation of Duties | | |
| 3 | Is the person preparing payment vouchers different from the person preparing cheques? | 90.0 |
| 4 | Is the person preparing payment documentation different from the person signing cheques? | 90.0 |
| 5 | Is the person approving payments different from the person preparing cheques? | 90.0 |
| Panel C: Physical custody | | |
| 12 | Are chequebooks kept in a safe place? (e.g safe, locked box or locked drawer) | 100.0 |

However, it is surprising to note that in one state mosque an invoice was not always a mandatory supporting document for making a payment. In that particular case, the mosque's managers allowed the staff to advance payments to suppliers and present claims for reimbursements at a later date. Only five state mosques imposed limits or thresholds concerning payment approvals to authorized personnel. Based on personal discussions with the relevant state mosque officials, the absence of this control was found to be due to the limited number of staff available to handle financial transactions. Furthermore, nine state mosques segregated duties when making payments. Additionally, all state mosques kept their check books in a safe. However, we found that some mosques did not restrict access to the safe only to authorized staff.

Table 4 presents the extent to which each mosque instituted internal control systems for disbursing funds. Overall, it appears that West Malaysia's state mosques have strong internal controls when it comes to disbursing funds. The average of 77.3% testifies to this. Three state mosques, F, J and K, appeared to have implemented all control procedures for disbursing funds. However, one state mosque implemented less than 50% of the control systems that it should have instituted. This particular mosque claimed that a shortage of human and financial resources was the primary reason for this. However, we fail to understand how a state mosque, which can request funds from the state government, could cite such a reason to justify its dismal performance as regards its internal control system related to disbursing funds.

Table 5: Internal Control on Disbursing Funds for Each Mosque

| State Mosques | Scores on Financial Controls of Disbursements of Expenditure (No. of Control Procedures is 11) | % of Scores |
|---------------|--|-------------|
| A | 5 | 45.4 |
| B | 7 | 63.6 |
| C | 9 | 81.8 |
| E | 7 | 63.6 |
| F | 11 | 100.0 |
| G | 9 | 81.8 |
| H | 7 | 63.6 |
| J | 11 | 100.0 |
| K | 11 | 100.0 |
| L | 8 | 72.7 |
| Total | 85 | 77.3 |

$$\text{AVE-II} = (85/110) * 100 = 77.3\%$$

Conclusion

To some extent, the results suggest that Malaysia's state mosques have implemented a proper system of internal controls to safeguard their assets (funds). The findings provide some indications as to the security of the public donations (*sadaqah*) made to West Malaysia's state mosques. The existence of adequate internal controls indicates that their management committees take their duty to safeguard the public monies entrusted to them quite seriously. The existence of such controls also provides assurance that public monies are used and accounted for properly.

Given that the state government uses TIs to dictate how funds are to be recorded, these results are to be expected. However, just because these TIs exist does not necessarily mean that they are followed strictly, particularly since public donations are not required to follow them. This is evidenced by the less-than-satisfactory performance of one state mosque (pertaining to internal controls on disbursing funds). But since this is the exception rather than the norm, the government may well feel some assurance that the funds allocated to state mosques are, indeed, well controlled. Overall, it is reassuring (to the state government and the public) to know that TIs are actually followed by the respective state mosques. Particular attention, however, needs to be given to the banking-in procedures. Several state mosques did not bank the collection on the same day, or at least on the next working day. Some of the mosques even used the collection to meet other expenses before banking the receipts.

The results of our study are somewhat interesting when compared to previous studies on internal control systems in churches in the West and in other religious organizations. Prior studies on churches have found that they regard accounting as a secular activity, which accounts for the distinct divide between secular and sacred activities. However, our study provides some support for the statement that Islam does not separate these activities. This is seen clearly in our informal interviews with mosque officials, all of whom indicated that their ultimate accountability is to God. What is pertinent here is the Islamic concept of accountability. While the individual (and by extension, the committee) is accountable to God, he/she is also accountable to other individuals, for his/her relationship with other individuals mirrors his/her relationship with God.

The results should be interpreted in light of two important limitations. The first is the assumption that all control systems are equally important to all state mosques. A more informative result would be achieved if each

internal control procedure were to be weighted according to its importance. The second pertains to the scope of the research. The study was limited to West Malaysia's state mosques, as we did not examine internal control systems in their East Malaysian counterparts. Additionally, our study was designed as an exploratory examination of the internal control system pertaining to receiving and disbursing funds collected by the country's state mosques. Future studies that include more background details of the mosques under study, including data about the number of employees, average annual funds received and disbursed, and the percentage of funds received from government and public donations, all of which were not collected in this study, will provide more insight into why certain mosques have poor internal controls.

Other pertinent areas worthy of study are the mosques' budgetary control procedures as well as the internal control systems found in private, district, and/or *qaryah* mosques. Examining the internal control procedures of such other Islamic organizations as zakah management centers, *waqaf* institutions (endowment funds), and the *baitul mal* (the treasury) would also be fascinating, given that such organizations are entrusted with managing public monies. In addition, analyzing internal control procedures via a qualitative approach would give us a more accurate and fuller picture of what is actually going on in these mosques. Most importantly, the results of our study may provide an important platform upon which such studies can be based.

Endnotes

1. A. R. Bowrin, "Internal Control in Trinidad and Tobago Religious Organizations," *Accounting, Auditing & Accountability Journal* 17, no. 1 (2004): 121-52.
2. E. Spitzer, "Internal Controls and Financial Accountability for Not-for-Profit Boards," 2005. Available online at www.oag.state.ny.us/charities/charities.html (retrieved July 2006).
3. R. Laughlin, "Accounting in Its Social Context: An Analysis of the Accounting Systems of the Church of England," *Accounting, Auditing & Accountability Journal* 1, no. 2 (1988): 19-41.
4. *Ibid.*, 38.
5. J. B. Duncan, D. L. Flesher, and M. H. Stocks, "Internal Control Systems in US Churches: An Examination of the Effects of Church Size and Denomination on Systems of Internal Control," *Accounting, Auditing & Accountability Journal* 12, no. 2 (1999): 142-63.

6. R. Laughlin, "A Model of Financial Accountability and the Church of England," *Financial Accountability & Management* 6, no. 2 (1990): 93-114; G. Woodbine, "Cash Controls within Christian Churches: An Exploration of the Determinants," *Asian Accounting Review* (May 1997): 21-39; and Duncan, Flesher, and Stocks, "Internal Control Systems in US Churches.
7. S. N. al-Attas, *Prolegomena to the Metaphysics of Islam* (Kuala Lumpur: International Institute of Islamic Thought and Civilization, 1995).
8. The Shari`ah is a detailed code of conduct for Muslims that has undergone amendment from time to time to keep it relevant to the conditions of each prophet's people and time. This process ended with the advent of Muhammad, to whom God revealed the final code that, as opposed to those revealed earlier, was to apply to humanity until the Day of Judgment. Its two major sources are the Qur'an and the hadiths (a collection of Prophet Muhammad's actions and words).
9. Muslims always say "peace be upon him" (pbuh) after mentioning Prophet Muhammad's name.
10. *Qaryah* mosques serve the people within the *qaryah* (village), which may be far away from the district mosque.
11. R. Laughlin, "Accounting in Its Social Context."
12. However, we could not determine the amount each state mosque receives from the state IRC.
13. R. K. Edwards, "Financial Accountability in Religious Organizations," *The National Public Accountant* 35, no. 6 (1990): 16-18.
14. I. R. al-Faruqi, *Al-Tawhid: Its Implications for Thought and Life* (Herndon, VA: International Institute of Islamic Thought, 1992).
15. S. Hameed, "The Need for Islamic Accounting: Perception of Its Objectives and Characteristics by Malaysian Accountants and Academics (Ph.D. thesis, University of Dundee, 2000).
16. A treasury instruction (TI) is a financial management directive for government departments and agencies. It contains instructions on budget, controls on the receipt and disbursement of funds, bank operations, stocks, tenders and quotations, and fixed assets and document management.
17. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission, *Internal Control-Integrated Framework* 4 (New York: AICPA, 1992).
18. P. Booth, "Accounting in Churches: Research Framework and Agenda," *Accounting, Auditing & Accountability Journal* 6, no. 4 (1993): 37-67.
19. Ibid.
20. J. B. Duncan and D. L. Flesher, "Does Your Church Have Appropriate Internal Control for Cash Receipts?" *The National Public Accountant* (February/March 2002): 15-20.
21. Ibid.
22. Booth, "Accounting in Churches," 37-67.
23. Woodbine, "Cash Controls within Christian Churches," 21-39; Duncan, Flesher, and Stocks, "Internal Control Systems in US Churches," 142-63;

- Duncan and Flesher, "Does Your Church Have Appropriate Internal Control for Cash Receipts?" 15-20; and R. Kluvers, "Budgeting in Catholic Parishes: An Exploratory Study," *Journal of Financial Accountability & Management* 17, no. 1 (2001): 41-58.
24. Woodbine, "Cash Controls within Christian Churches," 21-39; Duncan, Flesher, and Stocks, "Internal Control Systems in US Churches," 142-63.
 25. Woodbine, "Cash Controls within Christian Churches," 21-39.
 26. Duncan, Flesher, and Stocks, "Internal Control Systems in US Churches," 142-63.
 27. R. F. Meigs et. al., *Financial Accounting*, 10th ed. (Singapore: McGraw Hill International, 2001).
 28. These questions were: (1) Was there any situation where cheques were signed in advance? If "YES," please specify the situation and (2) Was the opening or closing of bank accounts undertaken after being approved by authorized council/committee? If YES, please state the authorizing council/committee.
 29. J. C. Robertson and T. J. Louwers, *Auditing and Assurance Services*, 10th ed. (Singapore: McGraw Hill International, 2002).
 30. Given that the TIs outline sound practices on internal controls, one would expect the mosque committee to follow such guidelines, even though public donations do not come under the TI's purview.
 31. *Should* refers to the maximum controls that we included in the questionnaire. The total score of controls is the sum of controls implemented by all the ten mosques. Similarly, the total score of controls that should be implemented represent the sum of controls that should be implemented by all ten mosques.