THE FINANCIAL MANAGEMENT PRACTICES OF STATE MOSQUES IN PENINSULAR MALAYSIA

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Abstract
Scandals involving fraud and embezzlement of significant amounts of the financial resources of Western Church Institutions are increasingly becoming more common. Such scandals have raised concerns as to the ability of internal control systems within the organizations to restrict such occurrences. Although, no such scandals have been reported for Islamic organizations, to date (particularly mosques), there is concern as to whether these organizations experience the same deficiencies as the Western church institutions. As such, the study examines the existing financial management practices of state mosques in Peninsular Malaysia, particularly in the areas of budgeting, receipts of income, disbursement of funds and reporting. A questionnaire survey and face-to-face interviews were employed in collecting the data. The results of the study indicate that state mosques in Peninsular Malaysia have a strong internal control system pertaining to the receipt of income and disbursements of funds. However, state mosques are still lacking in budgetary and reporting controls. The study also reveals that basic control activities such as the segregation of duties, recording of financial transactions and authorization of particular activities are satisfactorily practiced within the state mosques. Although this is an exploratory study, the results may provide a benchmark for further studies in the financial management practices of Islamic organizations in Malaysia.

Key Terms: Islamic Accounting, Mosque accounting, Mosque internal controls, Malaysia Mosque
1. Introduction

Financial management is a decision making process concerned with planning, acquiring and utilizing funds that seeks to ensure that the desired goals of an organization are achieved (Baker, 1987). It ensures that an organization will have sufficient financial resources to carry out plans in meeting the predetermined goals. In commercial organizations, the overriding goal of financial management is to increase the wealth of shareholders in terms of profits. However, the prime goal of non-profit organizations is not maximizing the wealth of shareholders rather, it is to direct all resources towards maximizing the multiple owners' utilities (Baker, 1987). Religious organizations that resemble most of the unique features of non-profit organizations should also have the same goal of making the best use of available resources for the benefit of the providers of resources.

State mosques in Peninsular Malaysia are categorized as public sector organizations that operate for non-profit purposes. Generally, state governments through relevant agencies such as the Islamic Religious Department (IRD) and the Islamic Religious Council (IRC) manage them. In addition, such mosques receive financial support from state governments. However, some state mosques also receive donations from the public. These donations are used to finance part of the religious and social activities conducted by state mosques. Other practical categories of mosques in Peninsular Malaysia are district mosques, qaryah\(^1\) mosques and private mosques. Although there is no consensus as to the categorization of mosques, it is generally done according to their administrative setups and sources of finance.

Our study on the financial management practices of state mosques in Peninsular Malaysia is motivated by three reasons. Firstly, as one of the many institutions that exist among the Islamic organizations, mosques were particularly chosen for this study due to their high standing in the Muslim society. Thus, it is expected that state mosques effectively apply an exemplary standard of practice as a reflection of their moral teachings. Secondly, as state mosques in Malaysia are generally categorized as public sector organizations and operate for not-for-profit purposes, they are expected to apply the necessary financial management practices effectively in the process of discharging public and financial accountability. Thirdly, the study is conducted for the purpose of understanding the management control practices in religious organizations.

\(^1\) According to the State of Perak Administration of Islamic Law Enactment 1992, qaryah or mosque qaryah is an area of neighbourhood in which a mosque is erected. A member of the qaryah is a person who is permanently living within a neighbourhood in which a mosque is erected.
The paper is divided into seven sections. The first section is the introduction followed by a brief discussion on the functions of mosques and churches. Section three provides an overview of accountability. The fourth section focuses on financial management in religious organizations and this is followed with the discussion on the data collection and data analysis in the fifth section. The results of the study are discussed in the subsequent section. Section seven concludes with recommendations for state mosques to improve their financial management practices, limitations of the study and suggestions for future researches.

2. Functions of Mosques and of Churches
In Islam, al-masjid, the Arabic term for mosques refers to all places of worship or literally it means a place for prostration (Mokhtar, 1997). During the time of the Prophet Muhammad (Peace Be upon Him (P.B.U.H)), the term al-masjid referred to the House of Worship or the House of God. This term included churches, synagogues and temples (Rasdi, 1999). However, nowadays, the term al-masjid or mosque normally refers to a place of worship for Muslims (Rasdi, 1999). According to state of Perak Administration of Islamic Law Enactment 1992, a mosque is a building or a place used for Friday prayers, daily prayers and other activities approved and encouraged by Islam. This is not to be confused with a musallâ, which is a place, ranging from a simple room to a building, for Muslims to perform daily prayers.

In contrast, Christians' churches have two different meanings, which are closely related. Churches may refer to the followers of Jesus whom are viewed as a community or specific institutions, either the local congregation or a national or international body (2006). It is sometimes refers to the building in which they meet. In Christianity, the functions of the church may vary depending on the sect. For instance, the functions of Catholics churches are prescribed in the “canon law” covers a variety of moral issues, including procedures for marriage and church activities. For Protestants, churches are individual organizations, which are often referred to as denominations. As such different churches may have different type of organizations. However, its main function is to preserve their spiritual enhancement. For the Christians, churches are organizations or places that conduct sacred activities and encourage members to make spiritual progress, and to demonstrate their faith in their behaviour.

In Islam, although initially mosques were meant for religious purposes, their functions have evolved according to the situation. For instance, the construction of the Quba' Mosque during the period of the Prophet (P.B.U.H) at
Yathrib was meant for performing prayers (Mokhtar, 1997). However, once the Islamic state was established in Madinah, and realizing the importance of the mosque in shaping the society, the Prophet (P.B.U.H) personally made the effort to construct a mosque. This mosque is later known as the Prophet's Mosque. The mosque was not only used for religious activities but also housed the administration of the Islamic state of Madinah (Mohammad, 1996).

At present, although mosques are no longer used as a state administration centre, their role in shaping society still continues. In Malaysia, for instance, a mosque functions as a vehicle for transforming government Islamic policies within the society. Islamic programs and activities are carried out in mosques to instill and strengthen the Islamic values among community members. Such programmes and activities include public talks, seminars, forums, short courses and educational classes for various quarters of the society Accountability Accountability is the foundation of this study. Traditionally, accountability is defined as "the giving and demanding of reasons for conduct" (Roberts and Scapens, 1985, p. 447). Gray, et al. (1996) defines accountability as follows: ... the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible (p.57).

Both definitions imply that the person who is vested with responsibilities must furnish information about his actions as well as be accountable for the effect of his actions. This is because the providers of resources have the right to information about the applications of those resources. A more extensive definition of accountability is offered by Shahul (2000) as follows:

... the duty of an entity to use (and to prevent the misuse of) the resources entrusted it in an effective, efficient and economical manner, within the boundaries of the moral and legal framework of the society, and to provide an account of its actions to accountees who are not only the persons who provided it with its financial resources but to groups within society and to society at large (Shahul, 2000, p. 247)

He asserts that an entrusted person is accountable to give an account of both the performance or non-performance of his/her duties and using the entrusted resources in the most effective, efficient and economical (3Es) manner. The above definition would particularly be relevant to public sector organizations that are entrusted to manage public monies. Jones and Pendlebury (2000) added that these 3Es are particularly important for the public sector where resources should be applied in a manner that involves the least cost in meeting the objectives of the resources applications.

Prior to that, Stewart (1984) as cited in Laughlin (1990) asserted that
organizations might have different bases or levels of accountability relationships. He suggested four levels of accountability relationships in a so-called 'ladder of accountability'. The first level of the accountability relationship is "accountability for legality or probity" that seeks to ensure that funds entrusted to the organizations are used legally and appropriately. The second level is "process accountability" that ensures guidelines and procedures are conformed by the management (accountor). The third is the "performance accountability" and "programme accountability" that refers to the achievement of a predetermined set of objectives or goals. Finally, "policy accountability" relates to a situation when the objectives or goals of the organizations are not clearly defined.

However, only the first two levels of accountability relationships (accountability for legality or probity and process accountability) are found to be commonly practiced within organizations (Tomkins, 1987). These relationships may be in the form of formal financial reports tendered to the principal or in fact the implementation of internal control system. In profit making business organizations, Baydoun and Willet (1997) argued that they are accountable to both the internal and external parties. If that were the case for commercial entities, it would be more so for public sector organizations that are entrusted with public monies.

In Islam, accountability or Ikhtisāb forms part of the interrelated key Islamic concepts. Other key concepts or include the concepts of Tawhid (Oneness of God), Khilāfah (vicegerancy) and 'Adalah (justice) (Abdalati, 1994). The concept of Tawhid is a magnificent and a beautiful concept that demands a lengthier translation of the term. Tawhid itself is "the realization-and-affirmation-of-Oneness". Allah is One in His Essence, His Attributes and His Acts. He is the Creator and the absolute and eternal owner of the whole universe, on earth and the hereafter.

He has appointed men as His trustees or khālifah (vicegerants) to take custody of resources of the entire universe, heavens and earth. Under the concept of Khilāfah, the ownership of these resources is a trust or āmānah. The resources are to be enjoyed conditionally so long men follow the will of the Creator and Owner. Although men are also endowed with freedom in looking after the entire resources, this is again an āmānah that shall necessitate men to obey Him. Al-Farouqi (1992) asserted that the concept of āmānah puts some restrictions on the application of resources and help ensure that men's actions conform to the Sharī'ah. Muhammad Iqbal's view on āmānah is that man is the trustee of a free personality and he bears the responsibility that goes with it (Kamali, 1999).
Accountability is associated with freedom. To be accountable, one must have the freedom to determine the course of conduct. The rational faculties endowed to men should enable them to make these responsible and sound choices of conduct in their life. In Islam, men are accountable for all their actions to God in the hereafter. The concept of accountability entails the Muslim to believe that every act in this world will be accounted for to God in the hereafter and there will be reward and punishments accordingly. In other words, the concept requires every Muslim to ensure every action is in line with the teaching of Islam. Thus as a khālifah, the responsibility and duty is to look after the God-given resources to be performed in accordance to God's will. The concept implies trust and responsibility, authority and duty, election and service in the life of men. In essence, accountability requires every Muslim (and Islamic organizations) to ensure that their deeds are in accordance with God's teachings (Shahul, 2000).

Shahul (2000) pointed out that the accountability concept in Islam is not restricted to spiritual aspects. It could be extended to social, business and other contractual dealings. In relation to this, he has developed an Islamic accountability model that illustrates possible accountability relationships from an organizational context. The model is illustrated in Figure 1. The model was initially developed for Islamic (and Muslim) business organizations and Muslim owners or investors. However, the model may also be useful to illustrate the possible accountability relationships in other types of organizations including religious organizations such as mosques. In this study, the two parties involved are the management of state mosques and the providers of finance and the congregations. The providers of finance would include the state governments, the Federal government and the public.

Based on the model, “man” refers to the management of state mosques on one side and the providers of finance on the other. Accordingly, there exists dual accountability, the primary and secondary accountability. Both the management of state mosques and the providers of finance act as trustee (khālifah) or the primary accounctor in the primary accountability relationship and secondary accounctor in the secondary accountability relationship. The primary accountability relationship is represented by dashed line 1. This

2 "... surely Allah takes account of all things” (Qur'an 4:86)

3 Islamic business organizations are organizations that are set up specifically to operate within the Shari‘ah as part of the strategy to develop a comprehensive Islamic economic and financial system. An example of this type of organization is the Islamic bank. Muslim business organizations, on the other hand, are businesses set up by Muslim owners who may or may not follow the Shari‘ah. This kind of businesses may gradually shift towards an Islamic business profile in their activities (Shahul (2000))
relationship arises from the concept of Khilāfah. Men act as khālīfah of God-given resources on this earth and it is transcendental in nature. Dashed line 2 indicates the basis of this relationship is the Qurʾān and the Hādith. Both of these are the main sources of Islamic teachings, which are then formalized into the Shariʿah. The Shariʿah, like all religious teachings, advocates doing good and forbidding evil deeds. This command occupies a central place in Islam and is an integral part of a Muslim's religious belief. In other words, as a trustee of God-given resources, both the management of state mosques and the providers of finance should conform to laws and rules outlined by the Qurʾān and the Hādith. All their actions (both good and bad) on this earth are recorded by two different angels without any exception. These Angelic records disclose the entire endeavor of men as khālīfah to Allah as their primary accountee (dashed line 6).

The solid lines in the model represent the secondary accountability relationships that are based on physical relationships. In the context of this study, the relationships arise between providers of finance (congregations and the government) and the management of state mosques. The basis of the relationship between the two parties could be based on the terms of deed of mosques, awqaf (Islamic Endowment), baitul māl (Islamic Treasury)
instruments or warrants of expenditure from the government (indicated by solid line 3). In common business entities, the relationship is made effective by legal documents such as the Memorandum and Articles of Association of a company. Based on Laughlin's (1990) interpretation of accountability, the accountability relationships in state mosques could be distinguished as 'contractual' with the State or Federal government and 'communal' with the congregations, donors or the public. According to Laughlin (1990), 'contractual' accountability refers to a more formal context of relationship that involves written forms of recording and defining expectations whereas 'communal' involves less formal context and less structured expressions of expectations.

In the secondary relationship, any financial resources made available to management of state mosques are made in the form of trust āmānah. The extent to which the management of state mosque could use the financial resources should conform to the prescriptions of the Qur'ān and the Hādīth. The existence of an accounting system and in fact any kind of management system that is based on the teachings of the Qur'ān and the Hādīth, provide a means of discharging the management's accountabilities as khālifah to their primary accountee i.e. Allah or God (represented by dashed line 5 and subsequently dashed line 6). This is also applicable to the management of state mosques that act as the secondary accountor to the providers of finance or congregations (secondary accountee). The relationship is represented by solid line 4. In summary, both the primary and secondary accountability relationships are expected to motivate Muslims or Islamic organizations including the management of state mosques to conform to the prescriptions of the Qur'ān and the Hādīth. Both parties, the management of state mosques and the providers of finance are accountable in all kind of dealings they indulge in.

4. Financial Management in Religious Organizations

Religious organizations such as churches usually portray the unique features of non-profit organizations. Apart from a different objective in the financial management, non-profit organizations have unique characteristics in terms of ownership, performance measurement, educational background of personnel and governance that are not embodied in their commercial counterparts (Duncan, Flesher & Stocks, 1999). The ownership of non-profit organizations rests with members or supporters of the organizations. Such supporters are generally, non-profit customers who provide resources for the organization i.e. donors and contributors (Bruce, 1995).

Traditionally, such organizations are managed by people from diverse educational backgrounds, with very little knowledge of management or
accounting. The governance of these organizations rests on governing boards or committees whose members do not always know their responsibilities and are often insufficiently informed about the organizations. Further, the management of the non-profit organizations is not subjected to normal profit-based performance evaluation. Religious organizations usually have a small number of staff and limited funds (Edwards, 1990). The size of staff often does not allow an appropriate segregation of duties and have a mix of full-time employees and volunteers (part-timers) participating in their operations.

The above features of non-profit organizations and religious organizations indicate that such organizations should have a satisfactory system of internal controls to ensure they discharge their accountabilities satisfactorily (Anthony and Young, 1994). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) suggested that one of the reasons for the occurrence of fraud in organizations is inadequate internal controls. From a financial perspective, the internal controls of these organizations should ensure that the management of an organization utilizes the financial resources in a manner that will safeguard the interests of the donors or/and contributors. The definition of internal control by COSO (1992) is as follows:

... 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.

Despite their importance, religious organizations appear to have a lack of expertise in and commitment to proper financial management practices (Booth, 1993). For instance, the churches were said to have inadequate accounting practices and poor internal controls. Previous studies have suggested that the lack of regulations and a proper code of conduct on accounting and financial management practices in churches (and other religious organizations) have contributed to the inefficiency of such practices in the organizations (Booth, 1993). Duncan and Flesher (2002) claimed that the scandals of fraud and embezzlement are becoming more common in the Western church institutions. It was reported by the Wall Street Journal that Roman Catholic priests and diocesan administrators misappropriated more than $3.5 million from the Church within three years. Thus, although churches as well as other religious organizations are built based on the concept of trust, honesty and truthfulness (Duncan & Flesher, 2002), the ubiquitous fraud and embezzlement that occur in such organizations should indicate that the existence of a good system of
internal control is necessary.

Booth (1993) further claimed that the lack of commitment to accounting and other management practices in churches was partly due to the belief in the divide between the sacred and the secular the objective of preserving the churches' transcendental identity. As a result, accounting and other management practices are regarded as secular activities, act as supporting functions to the sacred activities. A number of studies (Woodbine, 1997; Duncan, Flesher & Stocks, 1999; Duncan & Flesher, 2001; Kluvers, 2001) on financial internal control procedures that were undertaken in Western church organizations provide reasons for the lack of practice of financial management controls.

Woodbine (1997) and Duncan, Flesher and Stocks (1999) claims that the degree of resistance to internal control practices as well as areas of emphasis in controls are influenced by the type of denominations of the Christian faith. Further, Woodbine (1997) argues that the effectiveness of the controls, are also influenced by socio-economic factors such as funding capacity, membership size and the demographic factors of the staff. On the other hand, Duncan, Flesher and Stocks (1999) asserted that the number of members and the rules that govern specific churches affected the design of the internal control systems of such organizations.

Religious organizations in Islam (henceforth referred to as Islamic organizations), however are different from religious organizations of other faith in terms of its objectives and the nature their activities that they can undertake. *Awqaf*, zakāh (Islamic Taxes), *baitul māl* (Islamic Treasury) and *masjid* (mosques) are examples of Islamic organizations that commonly exist in Muslim communities. The institutions of awqaf, zakāh and baitul māl are specifically mentioned in Islam as wealth re-distributive mechanisms. These institutions are directly involved with the collection and appropriation of public monies and property. However, mosques are generally perceived as religious organizations that provide ritual and social services to the constituents. For Islamic organizations, achieving *falāḥ* (success in the hereafter) is their ultimate objective (Beekun, 1997). *Falāḥ* is the well-being or success in this world as well as in the hereafter (Khan, 1985). Thus, if Islamic organizations were to achieve *falāḥ*, all their activities, both socially and financially, should be conducted in accordance with the Islamic precepts. In other words, all resources of these organizations are to be directed towards achieving the *falāḥ* objective. Accordingly, the management of Islamic organizations is accountable to both the first and the second accountees, ensuring that resources are applied in accordance to the objective of achieving *falāḥ*.

In general, state mosques in Malaysia are not autonomous in their
financial affairs. There are two sources of finance for state mosques: state government allocation and public donations. The funds received from the state government are mainly used for the purpose of maintaining the mosque and to conduct religious activities. The public donations are normally in terms of *saddaqah* in which the donors do not specify the purposes of the donations. The public may hand over their *saddaqah* in collection boxes placed in state mosques or during the Friday congregational prayers. These public donations are used to finance some religious and social activities that are not funded by the government. In some state mosques, there is more than one type of funds collected from the general public. Beside the *saddaqah*, there are other forms of public donations such as *awqaf*, *zakāh* and *baitul māl*. However, generally mosques in Malaysia are not involved in the collection and redistribution of such donations to the beneficiaries. Respective state Islamic religious authorities handle the management of *awqaf*, *zakāh* and *baitul māl*. For instance, for the purpose of enhancing the efficiency of *zakāh* management, most of the state Islamic religious authorities established *zakāh* collection centers. These centers manage the collection and redistribution of *zakāh* to the beneficiaries. Our study, however, focuses on the financial management of *saddaqah* of state mosques.

The state governments except for the state mosque of the Federal Territory and Terengganu fund the operations of state mosques in Malaysia. The state mosque of Terengganu obtains its funds solely from public donations. The Federal Territory Mosque, however, is funded fully by the Federal Government. For state mosques that are funded by state governments, the management of the funds is handled by the State Treasury Department with the assistance from the respective Islamic Religious Department. In these state mosques, the mosques committees are responsible only for managing the public donations.

The financial management practices in state mosques (which are funded by state governments) include the preparation annual budget, disbursements of funds and reporting the disbursement activities. Since the funds are provided by the government, these financial management practices such as budget preparation, recording and reporting of the allocations must conform to the financial management procedures laid out in the Treasury Instructions*⁴ (*Arahan Perbendaharaan*). The Section 4 of the Financial Procedure Acts 1957 (Revised

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⁴Treasury Instructions is a financial management directive for government departments and agencies. It contains instructions on budget, control on receipts and disbursements, bank operations, stocks, tenders and quotations and fixed assets and document management.
in 1972) specifically states that the management of the funds from the
government must follow the Treasury Instructions.

Annual allocations that are granted by state governments is based on the
request by a particular state mosque. The financial controls on budgeting and the
documentation of the disbursement of allocations are handled by the respective
state Islamic Religious Department. The disbursement of these allocations from
the bank accounts is handled by State Treasury Department. Other control
activities such as recording and reporting the disbursements of the allocations
are also handled by the State Treasury Department. In short, state mosques are
not involved directly in the financial management of the allocations from state
governments.

However, most state mosques are involved in the financial management
of public donations or sadaqah. The financial management of the sadaqah
would involve exercising financial controls on receipts of income,
disbursements of funds, operations of bank accounts and reporting to providers
of the funds. There are two common practices of managing public donations in
state mosques. The first instance is when the state mosque committee is
entrusted as the trustee of the funds. This committee has the authority to manage
public donations of the mosque. This practice was implemented at the Abidin
Mosque in Terengganu. The second instance is when state mosque committees
are only responsible for collecting public donations. The management of the
funds such as the disbursement of the funds and the operations of the bank
accounts are handled by the state Islamic Religious Council (IRC). Accordingly,
in this situation, the state IRC acts as the trustee of the funds.

5. Data Collection and Analysis
This study was conducted on all twelve state mosques in Peninsular Malaysia in
2001-2002. The list of state mosques in Peninsular Malaysia is presented in
Table 1. The study only covers state mosques in Peninsular Malaysia due to
financial and time constraints. Data is collected using a 'mixed methodology’
approach: a combination of quantitative (the use of postal questionnaire) and
qualitative (structured interview) research strategies. According to Sogunro
(2001), this strategy gives more comprehensive data and provides a rich
interpretation of the data collected. In addition, Gillham (2000) earlier claimed
that interviews are particularly useful in research where little is known about,
what there is or what is going on in a certain environment. Using interview in our
study is relevant because there is a lack of financial management practices of
state mosques, particularly, state mosques in Malaysia.
Table 1: List of State Mosques in Peninsular Malaysia

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

The data collection involved three stages. The first is a survey via telephone to enquire about the nature of and parties involved in the financial administration of all twelve state mosques. At this stage, the researcher communicated either with potential respondents who is either the Imam Besar (Chief Cleric) or the office administrator of all ten state mosques in Peninsular Malaysia. These officers were able to provide most of the information on the financial administration of state mosques. Two state mosques are not involved in any of the financial management practices. One of these state mosques does not collect any donation from the public. The other state mosque only does the collection of donations but the management of these donations is handled by the state IRD. Thus these two state mosques are excluded from the study.

The second stage of data collection involved mailing out the questionnaire (Appendix A) to all ten state mosques. The researcher collected six sets of questionnaire personally during the visits. The other four sets (of state mosques of Negri Sembilan, Perlis, Johor and Malacca each) were posted by respondents. Since the sample for this study is small, responses from respondents are very crucial. In the third stage, structured interviews with the same respondents were conducted in eight of the ten state mosques. Due to time and financial constraints, there were no visit to the state mosques of Johore and Malacca. However, structured interviews were conducted via telephone with the respondents for these two state mosques.

Since the sample (also the population) consists of just twelve state mosques, descriptive analysis was employed to analyze the data. Further, most
of the responses are dichotomous in nature. As mentioned earlier, only ten state mosques were included in the analysis, as the other two are not managing public donations. For the purpose of anonymity, the names of the state mosques are not disclosed in this paper. The researcher denotes each of these state mosques with the letters A to M.

6. Results and Discussion
The data on the control procedures were analyzed from two different perspectives. The first analysis is to examine the existence of internal controls in state mosques. For this purpose, the data on the internal control procedures was analyzed according to the type of control activities for each internal control practice. Specific control activities such as the segregation of duties, the physical custody of assets and the recording of financial transactions are expected to be used by management in order to ensure the management directives are followed (Robertson and Louwers, 2002). This analysis provides information on the existence of internal controls in state mosques of Peninsular Malaysia.

The second analysis evaluates the strength of the internal controls practices in individual state mosques. The internal control practices include budgeting, receipts of income, disbursement of expenditure and reporting. The average performance of all state mosques investigated for each internal control practice (AVE) is calculated using the following formula.

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AVE: \quad \frac{\text{Summation of scores of control procedures}}{\text{for particular internal control practices}} \times \frac{\text{implemented in each state mosque}}{\text{Number of}} \times \frac{\text{Total number of control procedures state mosque}}{\text{for particular internal control practice}} \times 100
\]

The authors developed a ranking scale for AVE ranging from “very weak” to “very strong” for the purpose of distinguishing the level of strength of the internal control practices of the mosques. The scale is presented in Table 2. The basis of this classification is similar to the one used in most of the grading systems in examinations. The scales of scores are divided into two categories. Mosques with scores that are less than 50% are regarded as having “inadequate” internal control practices while the reverse holds true for mosques with scores of more than 50 percent.
The result of our study reveals that one state mosque does not have a single budgetary control in its internal control system. It is more intriguing to note that the operations of the mosque are funded totally by public donations. Cash budgets are critical to any organization that deals primarily with cash. These budgets provide an indication of the cash flow position of the organizations. However, we found that none of the state mosques prepare cash budgets of the donations received from the public.

For the receipts of income, three internal control activities were examined: the physical custody, the segregation of duties and the recording of transactions. The study reveals that state mosques appear to safeguard public donations. Collection boxes are locked and the opening of these boxes is conducted in the presence of at least two people. The collections are counted promptly. However, some state mosques did not deposit their collections on the next working day. Further, only six state mosques deposited the collections into the bank intact. The reason for this is primarily because they have used part of the collections to pay for cash expenditure. In terms of the segregation of duties, seven state mosques assign different personnel for the task of counting and recording the collections in a cashbook. Another three state mosques claimed that the absence of the segregation of duties is due to the shortage in staff. For recording controls, all state mosques appear to record the collections promptly in the cashbook and 'spot' checks are conducted in a regular frequency to ensure that collections are recorded in the books. The implementation of these controls seeks to ensure that theft and misappropriation of funds are minimized.

In disbursing cash for expenditure incurred, we found that all state mosques use payment vouchers to authorize the disbursements of funds. However, the documents used to support the disbursements depend on the types of payment and the documents vary from one mosque to another. Furthermore, it is interesting to note that an invoice is not always a mandatory supporting document for a payment in one of the state mosques. The management of the mosque allows the staff to advance the payment to suppliers and claim for reimbursements from the mosque. In order to minimize the possibility of fraud, there should be a segregation of duties between the personnel who authorize or
approve payments and the personnel who prepare cheques for payments. We found that nine state mosques implement the basic segregation of duties in the disbursements of funds, particularly in the payment process. The duties in this area should be delegated to different persons so that no one person can control two or more of the responsibilities.

Opening bank accounts in all state mosques requires approval from the respective State Treasury Department. Other control for the operation of bank accounts is the requirement of at least two cheque signatories for any payment. Nine state mosques stipulate two signatories are required for signing cheques. Nonetheless, one rather disturbing finding is the fact that one state mosque allows cheques to be signed in advance. In term of the physical custody, chequebooks are kept in a safe place with restricted access. All payments are recorded in the cashbook. However, only six state mosques segregate the duties of recording entries in the cashbook and preparing bank reconciliation to different people. Despite this, nine state mosques prepare bank reconciliations regularly as a means of controlling their funds in the bank.

Finally, on the reporting aspects, we found that state mosques do not provide any financial reports to donors on the utilization of public donations. However, one state mosque that was totally dependent on public donations had its financial reports audited by public accountants. This particular mosque also announces to the congregations, periodically, the details about the public donations such as the amount received and spent. Another disturbing finding is that, on some occasions, the relevant authority does not allow state mosques to inform the public about matters related to public collections. In general, the study reveals that that internal control practices exist in state mosques of Peninsular Malaysia. Relevant control activities such as the physical custody, the authorization, the recording of financial transactions, the segregation of duties, the review on operations of bank accounts and the reporting appear to be implemented in these organizations. However, the extent such practices are adopted by each mosque varies. The extent each mosque implements internal control practices is presented in Table 3.
Table 3:
Summary on the Strength of the Internal Control Practices in State Mosques

<table>
<thead>
<tr>
<th>No.</th>
<th>State Mosques</th>
<th>Budgetary Controls (%*4)</th>
<th>Income Receipts (%*14)</th>
<th>Disbursement of Expenditure (%*11)</th>
<th>Petty Cash Funds (%*6)</th>
<th>Banking Operations (%*14)</th>
<th>Reporting Controls (%*5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>A</td>
<td>75.0</td>
<td>78.6</td>
<td>45.4</td>
<td>100</td>
<td>85.7</td>
<td>80.0</td>
</tr>
<tr>
<td>2.</td>
<td>C</td>
<td>50.0</td>
<td>85.7</td>
<td>63.6</td>
<td>-</td>
<td>92.9</td>
<td>60.0</td>
</tr>
<tr>
<td>3.</td>
<td>B</td>
<td>50.0</td>
<td>78.6</td>
<td>81.8</td>
<td>33.3</td>
<td>64.3</td>
<td>0.0</td>
</tr>
<tr>
<td>4.</td>
<td>E</td>
<td>25.0</td>
<td>71.4</td>
<td>63.6</td>
<td>-</td>
<td>64.3</td>
<td>0.0</td>
</tr>
<tr>
<td>5.</td>
<td>F</td>
<td>75.0</td>
<td>71.4</td>
<td>100.0</td>
<td>100.0</td>
<td>85.7</td>
<td>80.0</td>
</tr>
<tr>
<td>6.</td>
<td>G</td>
<td>75.0</td>
<td>71.4</td>
<td>81.8</td>
<td>50.0</td>
<td>85.7</td>
<td>0.0</td>
</tr>
<tr>
<td>7.</td>
<td>H</td>
<td>75.0</td>
<td>100.0</td>
<td>63.6</td>
<td>-</td>
<td>92.9</td>
<td>80.0</td>
</tr>
<tr>
<td>8.</td>
<td>J</td>
<td>25.0</td>
<td>-92.9</td>
<td>100.0</td>
<td>83.3</td>
<td>92.9</td>
<td>0.0</td>
</tr>
<tr>
<td>9.</td>
<td>K</td>
<td>0.0</td>
<td>100.0</td>
<td>100.0</td>
<td>50.0</td>
<td>92.9</td>
<td>40.0</td>
</tr>
<tr>
<td>10.</td>
<td>L</td>
<td>50.0</td>
<td>78.6</td>
<td>72.7</td>
<td>-</td>
<td>92.9</td>
<td>0.0</td>
</tr>
</tbody>
</table>

AVERAGE: 50.0 82.8 77.3 69.4 85.0 34.0

Note: * - Maximum number of control procedures in a particular internal control practice

These state mosques appear to have a mixed strength in internal control practices. The explanation on the scales of the strength of internal control system of state mosques (AVE) is on page 17. The scales for the score are presented in Table 2 on page 17. The internal controls appear to be satisfactory except for reporting controls. This is indicated by the values of AVE computed for each of the practices, which are above 60 percent. State mosques also appear to have strong internal controls in the receipts of income and the disbursement of expenditure, including operating bank accounts. However, the internal control procedures on budgeting in state mosques appear to be only "fair".

On the basis of the above findings, one can only conclude that at least the first level of accountability relationships (accountability of probity or legality) in Stewarts's (1984) "ladder of accountability" appear to be in operation in state mosques of Peninsular Malaysia. In other words, state mosques appear to have utilized the donations appropriately and conform to the prescribed guidelines in the Treasury Instructions on the utilization of public monies. However, the other levels of accountability in the "ladder of accountability" do not appear to be a common practice in state mosques. For instance, the "process accountability" that requires management to conform to certain prescribed guidelines and procedures. The study reveals that there is a lack of financial reporting practices in state mosques. Reporting financial position of an organization is an important aspect of accountability, as it is not only show how resources are utilized but also whether organizations achieve their predetermined goals.

Our findings above provide some indications on the security of public donations (sadaqah) of state mosques in Peninsular Malaysia. The existence of adequate financial management practices in state mosques shows that the
management committees of state mosques regard their duty to safeguard the public monies entrusted to them seriously. The existence of such controls also provides assurance that public monies are used and accounted for properly. The lack of control procedures can sometimes lead to allegations of improprieties on the part of mosque committee members.

There are several interpretations of the practical situation in state mosques that can be discussed from the results of our study. First, the management of state mosques may not realize that safeguarding public donations would also include the reporting aspect. Second, the culture in Muslim community that does not want donations to be made known to the public may have contributed to the laxity in reporting. Thirdly, the management of state mosques may also perceive reporting is only necessary when there are official requirements or special request by relevant parties. However, from the accounting perspectives, state mosque management and committees should realize that reporting the affairs of donations would increase the credibility of state mosques and its management committees. Consequently, this position may attract continuous financial support from donors in future. Subsequently, with the increase in donations, state mosques would be able to conduct more religious and social activities for the benefit of the Muslim community.

7. Conclusion
Overall, it was found that the internal controls of state mosques are satisfactory except for reporting aspect. Our study reveals that state mosques have strong internal controls in the receipts of income and the disbursement of expenditure, including operating bank accounts. The internal controls on the budgeting in state mosques, however, appear to be “fair”. The results of our study contribute towards a better understanding of the unique nature of internal control practices in Islamic organizations, particularly state mosques, in Malaysia. It is apparent that any laxity in the practice of internal controls in state mosques is not due to the belief system of the organizations as found in the Western churches (Laughlin, 1988). It is more to do with the different perceptions and expectations between the accountant and the accountee in such organizations.

The lack of internal controls in certain cases could be addressed through various measures. To improve the internal control practices of the state mosques in Peninsular Malaysia, we propose various suggestions. These suggestions encompass both the control aspects as well as the human factor that operates the system. First and foremost, the Treasury Instructions should be made available for reference purposes to all relevant personnel of the state mosques. A circulation of the Treasury Instructions to relevant staff may raise
the level of awareness on the importance of the internal control practices in organizations. In addition, the officers of the State Treasury may advise the state mosque committees should there be any directives in the Treasury Instructions that are not suitable or applicable to state mosques. In situation where directives in the Treasury Instructions are less appropriate, state mosques are recommended to develop, maintain and circulate relevant internal control procedures within its administration.

Further, we propose that each state mosque provides relevant financial management training to its staff. Our study found that state mosques are still lacking in the implementation of basic internal controls even with sufficient supply of human resources. This is perhaps due to the lack of knowledge among the personnel on the importance of such controls in managing public monies. Furthermore, the educational background of committee members is primarily in religious studies with little exposure in financial or general administration. Thus, as an immediate measure, relevant authorities of state mosques such as the state IRD and the state IRC, together with the Department of Islamic Development Malaysia (Jabatan Kemajuan Islam Malaysia) are recommended to provide continuous training in issues pertaining to internal control practices to personnel entrusted with the mosque funds. This would include sending them to attend workshops, training and seminars in financial management aspects. The mosques may also organize 'on site' training in collaboration with the State Treasury Department or any organization involved in financial management training. The exposure should be for both the management and non-management staff (lower level staff) of the mosques. The training would help create awareness on the importance of having proper internal control practices in state mosques.

State governments are also recommended to assign an officer to specifically supervise and handle the financial management of state mosques. The financial affairs of a state mosque need to be managed professionally if it were to function not only as a spiritual place but also as a center for community development. It would be preferable if the officer concerned has a business or accounting related educational background. This is the practice of other religious institutions. In the Western churches, an accountant is appointed to look after the financial affairs of the churches.

The results of our study should be interpreted in light of several limitations. The first limitation is that our study did not assign a particular "weight" to the various control procedures. Instead, we did assume that all control procedures are equally important to the organization. Accordingly, the procedures are equally weighted. A more informative result would be achieved
if the control procedures were weighted according to their importance. However, this would require a further study. The second limitation is the scope of the research. The study was conducted on state mosques in Peninsular Malaysia only. Thus the findings may not reflect the internal control practices in the state mosques of Sabah and Sarawak. The third limitation is the scales for the strength of internal controls. The development of the scale is solely based on the personal judgment of the researchers. Thus the scales should subject to further validity testing. Despite these limitations, the ranking of state mosques in this study should provide additional information on the practice of internal controls in the state mosques.

Further, our study is just an exploratory study examining internal control practices in state mosques. In order to extend the understanding of internal control practices in Islamic organizations, future studies should examine such practices of other types of mosques such as private mosques, district mosques or qaryah mosques. Other Islamic organizations that would be of interest for this study purposes include the zakāh management centers, the institutions of waqaf and baitul māl. Given that such organizations are also entrusted to manage the public monies, it would be interesting to examine their internal control procedures. Apart from the scope of the research, the methodology of the research could also be improved to produce valid results. For example, the sample size of future studies (wherever possible) should be increased to enable a more rigorous analysis of data using statistical techniques.

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5 Mosques that are erected in a qaryah or a neighbourhood of a community. For the definition of qaryah in the Malaysian context, refer to Footnote 1.
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