

**THE INTERNAL CONTROL PROCEDURES OF MOSQUES IN MALAYSIA**  
**PROCEDIMENTOS DE CONTROLE INTERNO NAS MESQUITAS EM MALÁSIA**

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**ABRSTRAC**

Embezzlement of funds from religious organizations, particularly in Western church institutions, is increasingly becoming more common. Such scandals have raised concerns on the internal control systems of these organizations. Although there has been no report of financial scandals in mosques, there is increasing concern as to whether these organizations experience the same deficiencies as other religious institutions. Accordingly, our study examines the internal control procedures relating to the receipt of income and the disbursement of funds in state mosques in West Malaysia. A questionnaire survey and face-to-face interviews were used to collect the data. The results of the study indicate that state mosques in West Malaysia have a strong internal control system pertaining to the receipt of income and disbursement of funds. 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 by the mosques. Although this is an exploratory study, the results may provide a benchmark for further studies examining internal control practices in religious organizations.

Keywords: Internal control. Accountability. Mosques. Church. Malaysia.

**RESUMO**

O desfalque dos fundos das organizações religiosas, especialmente em igrejas ocidentais da igreja, está tornando-se cada vez mais comum. Tais escândalos resultaram em preocupações sobre os sistemas de controle internos dessas organizações. Embora não haja nenhum relatório de escândalos financeiros nas mesquitas, está aumentando o interesse em investigar se estas organizações têm as mesmas deficiências que as outras instituições religiosas. Assim o estudo objetiva examinar os procedimentos de controle interno que se relacionam ao recebimento da renda e à distribuição dos fundos nas mesquitas estaduais na Malásia ocidental. Um questionário foi submetido junto com entrevistas para coletar os dados. Os resultados do estudo indicam que as mesquitas estaduais de Malásia ocidental têm um sistema de controle interno forte para o recebimento da renda e a distribuição dos fundos. O estudo revela também que as atividades do controle básico, tais como a divisão das tarefas, o cadastramento de transações financeiras e a autorização de atividades particulares são realizadas satisfatoriamente pelas mesquitas. Embora seja um estudo exploratório, os resultados da pesquisa podem servir como parâmetro para outros estudos que venham examinar práticas de controle interno em organizações religiosas.

Palavras chaves: Controle interno. Contabilidade. Mesquitas. Igreja. Malásia.

## 1 INTRODUCTION

Recent reports on mismanagement of church funds have put into question the system of internal control existing in religious organizations (BOWRIN, 2004). A system of internal controls refers to the policies and procedures that are put in place in order to ensure that the assets of an organization are protected and that there is reliable financial reporting. Implementation of proper internal controls will lead to effective and efficient operations of the organization (SPITZER, 2005). Studies examining internal control systems of Western church institutions have concluded that the lack of controls may be attributed to accounting (and thus, internal control) being regarded as secular support activities (LAUGHLIN, 1988). More specifically, Laughlin (1988, p. 38) argued 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.

Accordingly, it is no surprise that the church will, more often than not, view internal controls as unnecessary and non relevant (DUNCAN; FLESHER; STOCKS, 1999). While there has been an increase in the number of studies examining the internal control of churches, there has been a paucity of studies examining the same issue on mosques. Given that Islam, theoretically at least, provides no division between what is secular and what is sacred, it would be interesting to examine if the lax in internal controls in churches is also present 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?

Our study contributes to existing literature in several important respects. As indicated earlier, previous studies on accounting and internal control practices in religious organizations have largely focused on the Western church institutions (LAUGHLIN, 1990; WOODBINE, 1997; DUNCAN, FLESHER and STOCKS, 1999). Our study, examining the internal control procedures of state mosques in Malaysia, attempts to redress this. Secondly, 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 the lax of accounting practices in such institutions. Church members resist the practice of accounting as they perceive that accounting does not contribute towards the preservation of the transcendental identity of churches.

However, the same may not be true for mosques. The divide between the sacred and the secular is not accepted in Islam and thus Islamic organizations (AL-ATTAS, 1995). Accordingly, the accounting practices and the system of internal control prevailing in mosques may differ from Western church institutions. The results of this study may illuminate this issue, to some extent. Finally, state mosques in Malaysia receive the bulk of its funds from the government. Given this, it is expected that state mosques follow strictly the procedures laid down in the Treasury Instructions (TI) pertaining to the custody of the assets of 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 the administration of Islamic affairs in Malaysia. Section 3 describes the management of mosques, the concept of accountability and internal control. Section 4 and 5 focuses on the data collection and analysis while section 6 provides the conclusion.

## 2 ADMINISTRATION OF ISLAMIC AFFAIRS IN MALAYSIA

The Section 2 provides a background on the administration of Islamic affairs in Malaysia, focuses on the Malaysia and on the administration of Islamic affairs in Malaysia.

### 2.1 Malaysia

Malaysia consists of 14 states. These are 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 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 states in West Malaysia are headed by the *Sultans* (the Rulers). Malacca and Penang, on the other hand, are headed by the *Yang Di Pertua Negeri* (who enjoys the same status as the *Sultan*).

The Federal Territory, however, is under the jurisdiction of the Federal Government. Islam is the official religion of the country. Accordingly, the involvement of the government in disseminating Islam and instilling Islamic values among Muslims is considerable. Government involvement, both at the Federal and State levels, signifies the importance of Islam in shaping Malaysian society. Muslims constitute more than 60% of its population. Although Islam plays a very significant role in Malaysian society, Malaysia is a multi-religious country and practices religious tolerance (MALAYSIA, 2000).

Malaysia's Federal Constitution delineates the power of the Federal government and the State governments with regards to the administration of Islamic affairs. The power of the State government is restricted to the administration of *Shari'ah* Laws and the administration of Islamic affairs in the each state. *Shari'ah* is a detailed code of conduct for a Muslim. It has undergone amendments from time to time to suit with the conditions of each Prophet's people and time. This process ended with the advent of Muhammad (Peace Be Upon Him (PBUH)), who brought with him the final code which was to apply to mankind for all time to come. Two major sources of the *Shari'ah* are the *Qur'an* (divine revelation) and *Hādīth* (a collection of the instructions issued or memoirs of Prophet Muhammad's conduct and behavior).

More specifically, the Ninth Schedule of the Constitution states that, among other things, the administration of Malay customs and state mosques are under the purview of the State governments. Accordingly, each state has its own enactment with regards to the administration of Islamic affairs and the conduct of Malay customs. Consequently, this may contribute to the variations in the implementation and enforcement of the *Shari'ah* Laws and administration of Islamic affairs in the various states of Malaysia.

### 2.2 Administration of Islamic affairs

There are two important organs in the administration of Islamic affairs of each Malay state: the Islamic Religious Council (IRC) and the Islamic Religious Department (IRD). While the IRC is responsible for policy making, the Islamic Religious Department (IRD) is responsible for executing the policies and procedures for the development and advancement of Islam in each state. At the Federal level, there is a Department of Islamic Development (JAKIM) that coordinates the standardization of the administration of Islamic affairs in all states.

The IRC is the highest authority in a state with regards to policy-making relating to the administration of Islamic affairs. Additionally, the IRC also promotes the development and advancement of Islam in each state. The council serves as an advisor to the rulers on all aspects of the administration of Islamic affairs. Apart from the key role of advising the rulers on Islamic affairs, most IRCs are actively involved in the economic programs that would benefit Muslims in the state. For instance, one of the divisions of the IRC, manages *waqaf* (endowment) properties. As for the *zakāh* funds (wealth tax), most of the states have privatized the management of the funds so as to be more efficient and effective in the collection and redistribution of the funds to the beneficiaries. For instance, the Selangor *Zakāh* Centre was established by the Selangor IRC and the centre manages *zakāh* collection and distribution on behalf of the state of Selangor.

The IRD is responsible for the development and advancement of Islam in each state. In the administration of Islamic affairs, the IRD is responsible for planning, coordinating and executing Islamic programs and activities for the development and advancement of Islam as outlined by the IRC. The IRD provides basic infrastructure such as religious schools (at the primary and secondary levels) and mosques to serve the community. Generally, the administration of the IRD comprises divisions that are responsible for religious education, propagation of Islamic teachings, the *Shari'ah* court, the mosques as well as activities pertaining to research and development.

As indicated earlier, because each state has its own enactment on the administration of Islamic affairs and Malay customs, there tend to be variations in practice. To minimize such variations, the Department of Islamic Development (*JAKIM*) was set up by the Federal government. The Department was established in 1968 and was initially known as the Islamic Affairs Division. Its primary objective is to strengthen efforts in developing and enhancing the achievement of Muslims in Malaysia. As a central agency, the department is also relied upon to enact, standardize and coordinate the implementation and enforcement of *Shari'ah* laws and the administration of Islamic affairs in all states.

### 3 MOSQUES, ACCOUNTABILITY AND INTERNAL CONTROL

In Islam, all places of worship are called mosques. In Arabic, the equivalent term for a mosque is *al-masjid* and literally it means a place for prostration. During the time of the Prophet Muhammad (PBUH), the term *al-masjid* referred to the House of Worship or the House of God. This term included churches, synagogues and temples. PBUH stands for Peace be upon him. Muslims always include PBUH whenever Prophet Muhammad's name is mentioned. However, nowadays, the term *al-masjid* or mosque normally refers to a place of worship for Muslims. To Muslims, a mosque is regarded as the place to perform prayers to the Almighty. In Malaysia, for instance, a mosque would refer to a specific building where Muslims perform their daily prayers, congregational prayers and the weekly Friday prayers.

Although, initially, mosques were meant for religious purposes, the functions of mosques have evolved according to specific situations. During the time of the Prophet Muhammad (PBUH), the building of mosques was initially for performing prayers. However, once the Islamic state was established in Medina, mosques not only functioned as places of worship but also as administrative centers. Presently, although mosques are no longer used as state administration centers, their role in shaping society still continues. In Malaysia, for instance, a mosque functions as a vehicle for transforming government policies within the society. Islamic programs and activities are carried out in mosques to instill and strengthen Islamic values amongst community members. Additionally, proper management and supervision of the mosques facilitates the services to the community.

Generally, mosques in Malaysia can be categorized into four types: state mosques, district mosques, *qaryah* mosques and private mosques. The purpose of the *qaryah* mosques

is to serve the people within the *qaryah*, which may be a distance away from the district mosque. The focus of our study is on state mosques.

Table 1 provides a list of state mosques in West Malaysia. State mosques are managed by state governments through the relevant agencies. The state governments also finance both the staff and operational costs of the mosques. Any donations received from the public are used to finance part of the religious and social activities conducted by the mosques. Most of the state mosques appoint mosque committees to manage the mosques. However, such committees do not normally play an active role in the management of these mosques.

**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.	Negri Sembilan	Masjid Negeri Negri 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

Source: research data.

### 3.1 Management of state mosques

Traditionally, religious organizations such as churches 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 (LAUGHLIN, 1988). Perhaps, the same can be said of mosques in Malaysia. In Malaysia, there are two groups of people entrusted with the management of state mosques.

The first group consists of salaried individuals who are employed by the government. These are the officers of the mosque. Generally, these officers are appointed by the IRD or the IRC. The officers of state mosques normally comprise the *Imām Besar* (Chief Cleric), the *Imām* (Cleric), the *Khātib* (Friday sermon reader), the *Bilāl* (caller to prayer) and the *Siak* (mosque keeper). These officers, in general, perform only religious duties except for the *Siak* who looks after the cleanliness of the mosque. Among others, the duties of these officers include ensuring that programs and activities of the mosque are properly organized.

The second group is the mosque committee. Members of state mosque committees comprise religious officials from both the IRC and the IRD as well as representatives from various government agencies. Their representation in the state mosque committee is on a voluntary basis.

In general, state mosques in Malaysia have no autonomy with regards to managing their financial affairs. There are two sources of funds that state mosques receive: allocation from the state government and public donations. The funds received from the state government are mainly used for maintaining the mosques and to conduct religious activities. The public donations are used to finance some religious and social activities that are not funded by the government. Because the funds are derived from two different sources, its administrative procedures pertaining to the funds also differ.

The state IRD is responsible for administering funds allocated by the state government while the state mosque committee is responsible for managing public donations. However, as Edwards (1990) suggested, given the limited funds that religious organizations have it is very difficult to have appropriate segregation of duties and a proper system of internal controls in such organizations. This may, in turn, lead to misappropriation of funds.

### 3.2 Accountability

With regards to mosques, a description on the Islamic concept of accountability precedes any discussion on the internal control of mosque funds. From the Islamic perspective, accountability surfaces from the concept of *amanah* (trust) (AL-FARUQI, 1992). *Amanah* is related to another important concept in Islam, *khilafah* (vicegerency). The Islamic sense of accountability is different from that which is generally understood in the West. In Islam, accountability is viewed from two different perspectives: man's accountability to God, and man's accountability to other men (society). Thus an individual worships God and executes all his duties as a *khalifah* (vicegerent). This constitutes his primary accountability. Secondary accountability is established through a contract between man and other men. More importantly, his relationship with other individuals mirrors his relationship with God.

One can also regard the transcendent accountability to God as the "vertical" accountability and the accountability to other individuals as the "horizontal" accountability. Examples of the latter include agency contracts between the owners and managers, contracts between employers and employees or contracts between superiors and subordinates (HAMEED, 2000). Further, under the concept of *khilāfah*, the ownership of resources is a trust or *āmānah*. Thus, any financial resources made available to the management committee of state mosques are made in the form of a trust (*āmānah*).

In our study, what is pertinent with respect to accountability is the relationship that arises between the providers of funds (in this case the donors or congregation and the government) and the management committees of state mosques. The focus of our study may be regarded as one that is more concerned with secondary accountability - that of man to other men.

State mosques in Malaysia are funded by the state governments except for the state mosque of the Federal Territory and Terengganu. The latter (state mosque of Terengganu) obtains its funds solely from public donations while the Federal Territory Mosque obtains funding from the Federal Government. For state mosques funded by state governments, management of the funds is handled by the State Treasury Department with the assistance of the respective IRD. Accordingly, state mosque committees are only responsible in managing public donations.

Because state mosques are funded by the state governments, the internal control procedures of these mosques conform to the financial management procedures laid out in the Treasury Instructions (*Arahan Perbendaharaan*). Treasury 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.

Such procedures include the preparation of annual budgets, disbursement of funds and reporting activities. Additionally, an important point that needs emphasis at this point is the fact that funds allocated to state mosques are based on requests made by these mosques.

Given that state mosques get their funds from the state governments, these mosques are not involved directly in the financial management of the funds. The financial controls on budgeting and documentation of the disbursement of funds are handled by each respective state's IRD. Similarly, other activities such as accounting, recording and reporting the disbursement of funds are also handled by the State Treasury.

Funds collected from the public are, generally, under the purview of each individual mosque committee. These committees act as trustees of the funds and have full authority to manage public donations. However, exceptions do occur. Some state mosques are only responsible for collecting public donations with disbursement of funds handled by the state IRC. In such a situation, the state IRC acts as the trustee of the funds.

### 3.3 Internal control

As alluded to elsewhere in the paper, one possible reason that fraud and misappropriation of funds occur is poor internal controls or the lack of it. A proper system of internal control ensures that the management of an organization utilizes the financial resources in a manner that will safeguard the interests of the donors and/or contributors. The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 1992) 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.

However, religious organizations appear to have a lack of expertise in and commitment to proper internal control practices (BOOTH, 1993). Further, 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 organizations (BOOTH, 1993). Duncan and Flesher (2002) claimed that fraud and embezzlement of funds 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 indicates a need for a good system of internal control to be instituted.

Booth (1993) 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. Accounting and internal control procedures are regarded as secular activities and act as secondary functions to the sacred activities. Prior studies examining internal control procedures in Western church organizations have identified various factors that can explain the lack of internal control practices in such organizations (WOODBINE, 1997; DUNCAN, FLESHER and STOCKS, 1999; DUNCAN and FLESHER, 2002; KLUVERS, 2001).

Woodbine (1997) and Duncan, Flesher and Stocks (1999) argued 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) argued that the effectiveness of the controls is also influenced by socio-economic factors such as funding capacity, membership size and the demographic factors of the staff. Similarly, Duncan,

Flesher and Stocks (1999) suggested that the design of the internal control system of churches is dependent on the number of members and the rules that govern specific churches.

According to Meigs et al. (2001), cash is the most susceptible asset to theft and fraud. The financial resources of state mosques in West Malaysia are generally in the form of cash or near cash. Therefore, it is important that state mosques have proper internal control procedures to protect these assets as well as minimizing losses resulting from theft and fraud. Thus, the internal control procedures on the receipt of income should include the physical custody, segregation of duties, authorization, recording of the transactions, and periodic reconciliations of the funds.

In order to have adequate internal controls on the disbursement of funds, all payments except those from petty cash, should be made by cheque. The use of cheques as a mode of payment provides a written record of each disbursement. In addition, it requires every transaction to be verified, approved and recorded before any cheque is issued. However, cash payments are generally allowed for minor expenditure and payments, and these should be made from the petty cash funds only. Given that cash is very susceptible to fraud and theft, the internal control on cash disbursement should cover important aspects of financial management practices. As indicated in the preceding paragraph, such financial management practices include ensuring the physical custody of the funds, the segregation of duties, authorization, recording of financial (cash) transactions and periodic reconciliation.

#### **4 DATA COLLECTION AND ANALYSIS**

The Section 4 focuses on the data collection and analysis, describes the data collection and the research instrument.

##### **4.1 Data collection**

The data collection involved three stages. Initial telephone interviews were conducted to enquire about the nature of and parties involved in the financial administration of all 12 state mosques. We communicated with the *Imam Besar* (Chief Cleric) or the office administrator of all the 12 state mosques in West Malaysia. These officers were able to provide most of the information on the financial administration of state mosques.

It is at this initial stage that we discovered that 2 state mosques did not involve themselves with the administration of any funds. One mosque indicated that it did not collect any donations from the public while the other informed us that the management of donations is handled by the state's IRD. Accordingly, we excluded these two state mosques. Thus, our final sample consists of 10 mosques.

The second stage of data collection involved mailing out the questionnaire to all the 10 state mosques. In the third stage, structured interviews with the same respondents (to the questionnaire sent earlier) were conducted in 8 of the mosques. Due to time and financial constraints, we did not visit the state mosques of Johore and Malacca. However, telephone interviews were conducted with the officers of these two mosques.

##### **4.2 Research instrument**

The questionnaire consists of two parts. Part I focuses on general information such as the staffing of state mosques, committee(s) that exist at state mosques, sources of funds and the availability of any written financial procedures. Part II concentrates on the research objectives – the internal control procedures on receipt of income and the disbursement of funds.



Two types of questions were designed for the purpose of obtaining data on the system of internal control in state mosques. The first set of questions focus on control procedures. These questions require respondents to tick either 'YES' or 'NO' in the boxes provided. The second set of questions was designed to obtain additional information on the control procedures. Most of these questions are open-ended and hence required respondents to write their answers in the spaces provided.

## 5 RESULTS

Since the sample consists of just 10 state mosques, advanced statistical analysis was not undertaken. Only a descriptive analysis was done. Because of the need to preserve anonymity, we have only identified the mosques using the letters of the alphabet (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 each mosque has instituted the internal control on receipt of income and disbursement of funds, we tabulated the results for each mosque (see Tables 3 and 5). The average (AVE) (discussed later) was then calculated. The calculated AVE is then compared with the controls prevailing in each state mosque. Better performers were those mosques whose controls were higher than the AVE.

### 5.1 Receipt of income

The control activities that are important to income receipts are the physical custody of the funds, the segregation of duties and the recording aspect (see Table 2, Panels A, B and C). The analysis on the physical custody of the receipt of income is divided into three stages, namely, the collection stage, the banking-in stage and "safekeeping". Questions 1, 2, 4 and 5 are internal controls relating to the collection stage while questions 8, 9 and 10 are internal controls for "banking-in". Questions 11 and 12 focus on the "safekeeping" aspects.

As indicated in Table 2, of the 10 state mosques, 9 mosques implement financial control procedures for the collection and safekeeping of income. At the collection stage, three control procedures are implemented in all the 10 state mosques. Collection boxes of these state mosques are sealed or locked. The opening of the collection boxes was attended by at least two persons. The presence of at least more than one person is important to minimize theft or fraud and to provide additional check. The collections were also counted promptly once opened. A delay in counting may lead to theft or fraud.

However, there were instances where collections were not banked in the next working day as stipulated in the Treasury Instructions (TI) No. 78. The delay in the banking-in may expose the collection to opportunities for theft and misappropriation of the monies collected. Further, only 6 state mosques deposited the collections into the bank, intact. State mosques that did not bank in their collections intact were actually using part of the collections to pay for small cash expenditure. This is perhaps due to the absence of petty cash funds in these state mosques.

**Table 2 - Internal control on Receipt of income**

No.	Controls	No. of state mosques implementing the control	% of Frequency
	<b>Panel A: Physical Custody</b>		
	<b>Collection</b>		
1	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
	<b>Banking in</b>		
8	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
	<b>Safekeeping</b>		
11	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
	<b>Panel B: Segregation of duties</b>		
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
	<b>Panel C: Recording of transactions</b>		
	<b>Recording</b>		
3	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
	<b>Verification</b>		
14	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

Source: research data.

On the segregation of duties, 7 state mosques (70.0 percent) segregated the task of counting and recording the collections in a cashbook to different personnel. The absence of this control activity in another three state mosques is perhaps due to a shortage of staff. However, discussions with relevant personnel of the state mosques revealed that the reason for the absence is actually due to a lack of knowledge on the importance of internal control activities pertaining to segregation of tasks.

Proper recording of financial transactions is necessary as it provides a proper audit trail. Further, to ensure the accuracy of the recorded transactions, verification of the recorded transactions is equally important. Accordingly, the recording aspect includes verifying the transactions. Questions 3 and 13 are related to the recording of financial transactions, while Questions 14 and 15 are for verification controls.

Ten state mosques in West Malaysia did record their financial transactions in the cashbook. However, only 7 state mosques conducted “spot” checks to ensure that financial transactions are recorded regularly. A problem that may arise when there is a delay in recording financial transactions is that the transactions may not be recorded at all. Subsequently, this will lead to theft or misappropriation of funds. As for verification controls, 8 state mosques did record as well as verify the recorded transactions on income receipts.

The results on the extent each mosque instituted internal controls for receipt of income is provided in Table 3.

**Table 3 - Internal control on receipt of income for each state mosque**

No.	State Mosques	Controls for each mosque (Max = 14)	% of Scores
1.	A	11	78.6
2.	B	12	85.7
3.	C	11	78.6
4.	E	10	71.4
5.	F	10	71.4
6.	G	10	71.4
7.	H	14	100.0
8.	J	13	92.9
9.	K	14	100.0
10.	L	11	78.6
	Total	116	
	<i>AVE-I</i>		<b>82.8</b>

Obs:  $AVE-I = (116/140) * 100 = 82.8\%$

Source: research data.

As alluded to earlier, the average (AVE) was then calculated as follows:

$$AVE = \frac{\text{Total score of controls actually implemented}}{\text{Total score of controls that should be implemented}} \times 100$$

On average, 82.8 percent of the control procedures on income received were implemented in state mosques in West Malaysia. Four state mosques, namely: B, H, J and K,

implemented more than 85 percent of the control procedures and the rest of the state mosques implemented more than 70 percent of the control procedures.

## 5.2 Disbursement of funds

The internal control on the disbursement of funds is divided into three control activities: authorization, the segregation of duties, and physical custody of the funds. As presented in Table 4, all state mosques use payment vouchers to authorize the disbursement of funds. However, the documents used to support the disbursements vary from one mosque to another and depend on the types of payment. 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, acknowledgement of deliveries was simply done on invoices rather than on separate delivery notes or orders.

However, it is interesting to note that an invoice was not always a mandatory supporting document for a payment in one of the state mosques. The management of the mosque allowed the staff to advance payments to suppliers and claimed for reimbursements later. Only 5 state mosques imposed limits or thresholds for payment approvals to authorized personnel. Based on personal discussions with the relevant state mosques, the absence of this control procedure is due to a limited number of staff available to handle financial transactions. Further, 9 state mosques did segregate duties when making payments. Additionally, all state mosques kept their cheque books in a safe. However, we found that some mosques did not restrict access to the safe to authorized staff only.

**Table 4 - Internal control on disbursement of funds**

No.	Controls	No. of state mosques implementing the control	% of Frequency
<b>Panel A: Authorization</b>			
1	The payments are supported by documents such as:		
	i. Quotation	7	70.0
	ii. Purchase order	7	70.0
	iii. Invoice	9	90.0
	iv. Delivery note/order	6	60.0
	v. Others: _____		
2	Are payment vouchers prepared when making payments?	10	100.0
6	Are there any limits imposed on payment approvals at various levels of the committee members/staff of the mosque?	5	50.0
<b>Panel B: Segregation of duties</b>			
3	Is the person preparing payment vouchers different from the person preparing cheques?	9	90.0
4	Is the person preparing payment documentation different from the person signing cheques?	9	90.0
5	Is the person approving payments different from the person preparing cheques?	9	90.0
<b>Panel C: Physical custody</b>			
12	Are chequebooks kept in a safe place? (e.g safe, locked box or locked drawer)	10	100.0

Source: research data.

The extent each mosque instituted internal control procedures on disbursement of funds is presented in Table 5. Overall, it appears that state mosques in West Malaysia do have strong internal controls in the disbursement of funds. The average of 77.3 percent is testimony of this. Three state mosques, F, J and K, appeared to have implemented all control procedures for the disbursement of funds.

However, one state mosque implemented less than 50 percent of the control procedures that it should have instituted. The particular mosque claimed that shortage in human and financial resources are the primary reasons for this. However, we fail to understand that a state mosque which can request funds from the state government could provide this as a reason for their dismal performance on their internal control on disbursement of funds.

**Table 5 - Internal control on disbursement of funds for each mosque**

No.	State Mosques	Scores on Financial Controls of Disbursements of Expenditure (No. of Control Procedures is 11)	% of Scores
1.	A	5	45.4
2.	B	7	63.6
3.	C	9	81.8
4.	E	7	63.6
5.	F	11	100.0
6.	G	9	81.8
7.	H	7	63.6
8.	J	11	100.0
9.	K	11	100.0
10.	L	8	72.7
	Total	85	
	<i>AVE-II</i>		<b>77.3</b>

Obs.:  $AVE-II = (85/110) * 100 = 77.3\%$

Source: research data.

## 6 CONCLUSION

The results, to some extent, suggest that state mosques in Malaysia do have a proper system of internal control to safeguard their assets (funds). The findings provide some indication on the security of public donations (*sadaqqah*) of state mosques in West Malaysia. The existence of adequate internal controls in state mosques indicates that the management committees of state mosques regard their duty to safeguard public monies entrusted to them, seriously. The existence of such controls also provides assurance that public monies are used and accounted for properly. Given that the state government dictates (through the Treasury Instruction) how funds are to be recorded, the results are to be expected. However, the fact that there are Treasury Instructions does not necessarily mean that these are followed strictly.

This fact is evidenced by the less than satisfactory performance of one state mosque (pertaining to the internal control on disbursement of funds). The fact that this is the exception rather than the norm may well give some assurance to the government that funds allocated to

state mosques are, indeed, controlled well. Thus, overall, it is reassuring (on the part of the state government and the public) to know that the Treasury Instructions are actually followed by the respective state mosques. However, particular attention needs to be given to the banking-in procedures. A number of state mosques did not bank in the collection on the same day or at least on the next working day. Some of the mosques even used the collection to pay for other expenses before banking in the receipts.

The results of our study are somewhat interesting when compared to previous studies on internal control procedures in other religious organizations such as the Western church institutions. Prior studies on churches have found that such organizations regard accounting as a secular activity and that there is a distinct divide between the secular and the sacred. However, our study on mosques provides some support that there is no division between the religious and the profane in Islam. What is pertinent here is the Islamic concept of accountability. While the individual (and by extension, the committee) is accountable to God, he is also made accountable to other individuals for his relationship with other individuals mirrors his relationship with God.

The results of our study should be interpreted in light of two important limitations. The first is the assumption that all control procedures are equally important to all state mosques. A more informative result would be achieved if the control procedures are weighted according to their importance. The second pertains to the scope of the research. The study was conducted on state mosques in West Malaysia only. We did not examine internal control procedures in state mosques in East Malaysia. Additionally, our study is just an exploratory study examining the system of internal control pertaining to receipts and disbursement of funds in state mosques in Malaysia.

One pertinent area worthy of study is the budgetary control procedures of mosques. Future studies should also examine the system of internal controls of other types of mosques such as private mosques, district mosques or *qaryah* mosques. Other Islamic organizations that would be of interest would be *zakāh* management centers or the institutions of *waqaf* (endowment funds) and the *baitul māl* (the treasury). Given that such organizations are also entrusted to manage public monies, it would be interesting to examine their internal control procedures. Finally, it would be interesting to examine internal control procedures using a qualitative approach. The results of our study may provide an important platform for such studies to be undertaken.

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