Mosques Fund Management: A Study on Governance and Internal Controls Practices

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Abstract: Governance and controls over the funds of the religious Non-profit organizations (NPOs) were important due to the fact that these organizations managed public funds. Besides, holding the name of religious organizations, integrity, credibility and honesty in managing funds were expected by the public. This study investigated the governance and internal controls practices which focused on the receipt of income and disbursement of funds by Jameq Mosques in the central region of Malaysia. In a state which was divided into several areas, Jameq Mosque was referred to the main mosque in an area which received funding from government, corporate and public donations and monitored by Islamic bodies of each state. Jameq Mosques in the Central region of Malaysia were chosen as the population of interest due to the fact that this region was the most developed area which received lots of funding. Unstructured interviews and review of documents were conducted to investigate the current practices of governance and internal controls on receipt of income and on disbursing funds. Findings suggested that there were no standard guidelines or policies on governance to be followed by the mosques. Regarding internal controls practices, both receipt of income and funds disbursement requires significant attention regarding the segregation of duties element. Other elements of internal controls such as physical custody, recording of transactions, and authorization were at the accepted level.

Key-words: Jameq Mosques, governance, internal controls, segregation of duties, physical custody, recording of transactions, authorization.

1 Introduction
1.1 Background of the study
Studies investigating fund management systems among religious organizations have been quite extensively reported in the literature. However, in the context of mosques, studies are very limited whereas Muslims in Malaysia (2012) represent 60.4% of the total population. Against this background, this study focuses on funds management among Jameq mosques in the central region of Malaysia. Adopting the qualitative research approach with interview as the main data collection technique, the study aimed to unveil the governance, current accounting practices, and internal controls implementation of the said religious institution.

1.2 Overview of mosques administration
Malaysia comprises of fourteen states and the administration of Islamic affairs are done by two organizations; the Islamic Religious Council (IRC) (responsible for policymaking), and the Islamic Religious Department (IRD) (responsible for carrying out the policies and procedures for developing and advancing Islam in each state). Besides, the Department of Islamic Development (JAKIM) coordinates the standardization of each state’s method of administering its Islamic affairs at the federal level (Sulaiman, Siraj, and Ibrahim, 2008).

There are four categories of Mosques; State Mosque, Royal Mosque, Jameq Mosque, and Kariah Mosque. A state is divided into several areas. Jameq Mosque refers to the main mosque in an area which received funding from government, corporate and public donations.

1.3 Issues in mosques administration
As a religious entity, the accountability in managing the public funds of a mosque is deemed significant to reflect the integrity of the management of an Islamic institution. However, there are various types of fraud, mismanagement or error perpetrated on that have become more and more ingenious, and
therefore implementing good internal control system (ICS) could help an organization to ensure the reliability of its financial reporting system, to safeguard its assets, to make sure that financial statements are prepared timely and most importantly, to prevent fraud and error from happening (Palmer and Randall, 2002). Poor internal control practices not only create an opportunity for abuse, fraud, and corruption, but also can send message to publics indicating management ignorance about protecting the entity’s assets.

1.4 Objectives of study
In general, the study is intended to examine the current practices of funds management at Jamek mosques in the central region of Malaysia. More specifically the study attempts to:

i. Examine the governance and accounting practices regarding funds management

ii. Investigate the internal control practices on receipt of income (which covers physical custody, segregation of duties, and recording of transactions)

iii. Investigate the internal control practices on disbursing funds (which covers authorizations, segregation of duties, and physical custody)

2 Literature Review

2.1 Mosque as religious NPOs
The word mosque has evolved from the word of *sajada* which mean devoted, loyal and with bowed heads with full respect and reverence (Wahab, 2008). Not only a place of worship, mosque is also a place to gain knowledge, for communal gathering of the Islamic community members, as well as for holding various religious ceremonies and rituals, such as marriage. The key challenge of managing mosques today is to ensure efficient and proper funds management. Lack of accountability to manage accounting system, less budget participation in the mosque and improper of recording and reporting of income and effective way to find sources of income in mosque are some examples of criticisms in mosque management (Alim and Abdullah, 2010). In addition, a weak internal control system will increase the risk in managing the mosque performance and could influence the internal and external management control system which will affect the financial management practices in mosque (Mohamed Adil et al., 2012).

2.2 Internal controls in religious organizations
Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations (Cuomo, 2005). Not only related to accounting and reporting, these systems also relate to the organization’s communication processes, internally and externally, and include procedures for (1) handling funds received and expended by the organization, (2) preparing appropriate and timely financial reporting to board members and officers, (3) conducting the annual audit of the organization’s financial statements, (4) evaluating staff and programs, (5) maintaining inventory records of real and personal property and their whereabouts and (6) implementing personnel and conflicts of interest policies (CPA Australia, 2011).

The effective implementation and monitoring of internal control system will help to ensure organizations meet their objectives, such as providing services to the community professionally, while utilising resources efficiently and minimising the risk of fraud, mismanagement or error (Morehead, 2007). Religious NPOs have some particular characteristics that distinguish them from business organizations, which mean that developing accountability mechanisms will be a challenge in these organisations. Lack of ownership and the absence of a profit motive in religious based organisations make these organizations are more dependent upon the external environment for generating financial resources for them to operate. According to Afifuddin and Siti-Nabiha (2012), religious organizations do not have controls mechanism in place to protect their resources and keep their members informed of the organization’s financial status and fund raising efforts.

Sulaiman et al (2008) found that, the embezzlement of funds from religious organizations (mosques) is more common due to lack of accountability and lack of commitment to accounting. Meanwhile Said, Mohamed, Sanusi and S.Yusuf (2013) state mosque committees need to create an effective internal control strategy to improve financial performance. Good internal control enhance transparency of the mosque which enhance donors’ confident to contribute more fund to the mosque. Jokipii (2010) proved that lack of internal control has increased the numbers of business failure. Similarly, lack of control management in mosque in reporting the transactions such as receiving income, authorization, recording of financial transactions, and periodic reconciliation will affect the report of financial performance. Proper internal control system will give better result in financial performance and shows that measuring
effectiveness of internal control will improve the programs carried out by the mosque (Said et al., 2013). Good internal control system such as disbursement of funds, recording and reporting receipt of income will affect the financial management practice in mosque enhance donors’ confidence to channel their money to the mosque. This in turn will improve its financial performance. Subsequently, mosques need to recognize the importance of fundraising activity. Active involvement of mosques’ committee members in fund raising activities facilitates continuous flow of fund to their mosque.

2.2.1 Internal controls on receipt of income and disbursing funds
As the procedures of handling funds received and expended by the organisation is an important component to achieve sound internal controls (CPA Australia, 2011), it is therefore important to evaluate the internal control practices on receipt of income and disbursement of funds due to the fact that religious organizations appear to have lack of expertise and commitment in practicing proper internal controls. Prior studies have suggested that the lack of regulations and a proper code of conduct as regards accounting and financial management practices in churches (and other religious organizations) have contributed to their inefficiency (Booth, 1993). Duncan and Flesher (2005) also claimed that fraud and embezzlement are becoming more common in western church institutions. Controls related to physical custody of cash and cheques, segregation of duties, recording of transactions, and authorization of payments are the suggested control elements on receipt of income and disbursing funds (Sulaiman, Siraj, and Ibrahim, 2008).

3 Research Methodologies
The study adopted the qualitative research approach with unstructured interview as the main data collection technique involving 13 Jameq Mosques in the central region of Malaysia. The questions asked for the unstructured interview was adapted from the audit working papers on internal control systems for receipt of income and disbursing funds (Appendix 1) and detail answers for certain questions were sought when necessary based on the interviewer’s judgment. The checklist regarding internal controls on receipt of income were classified into three; physical custody of cash and cheques collection, segregation of duties among persons who counted money from collection boxes and the person who made entries in the cashbook, and recording and verification of transactions for cash/cheques received. For internal controls checklist on disbursing funds, authorization of payments, segregation of duties in terms of preparing payment documents and physical custody of cheque books were asked during the interview session. Besides unstructured interview, review of documents was also done to gain more insights regarding funds management, accounting procedures and internal controls practices by Jameq Mosques. Descriptive analysis was conducted to analyse the data.

4 Data Analysis and Findings
4.1 Governance of the selected mosques
The study found that there were no standard guidelines to be followed in managing the funds collected. The organizational structure of the mosques differs in so many ways. The appointment of auditors for example, there were mosques that follows proper governance based on accounting requirements by appointing internal and external auditors. There were also mosques that hire only internal or external auditors, and the worst case, no internal or external auditors appointed. Looking at the recording of funds collected and expended, it was found that no standardization in term of the method of keeping records. The mosques either used manual system (using paper notebook or ledger), computer-based system using non-accounting software (Excel, Words etc.) or computerized accounting systems (Mr. Accounting, UBS software). In terms of disclosure of funds collected and expended, there were mosques that disclosed every detailed item to the public, mosques that displayed the amount received and expended in total on the whiteboard, and mosques that keep all the records only for the knowledge of the management.

4.2 Internal controls practices on receipt of income
4.2.1 Physical custody
Under physical custody, questions were divided into three: collection, banking –in, and safekeeping. In terms of physical custody of collection boxes, the objective of controls is to ensure all cash collections boxes is safeguarded, and once opened, the cash should be promptly counted, recorded and deposited to the bank.

Descriptive analysis showed that all Jameq Mosques practiced good physical custody for safeguarding the collection boxes by having sealed or locked boxes, and all collection boxes were opened regularly. These could prevent possibility of theft of the cash collection. Regarding the number of people present during the opening of the
collection boxes, there should be at least two people present in order to minimize the chance of theft or fraud. However, only 84.61% of Jameq Mosques have at least two people present during the opening of collection boxes. As cash is in the most vulnerable form, counting of money from collection boxes should be done promptly once opened to prevent theft and fraud. It was found that 84.62% of respondents counted the cash collection immediately once the collection box opened.

Regarding banking-in money collected from the collection boxes, 92.31% of respondents have good controls by depositing at least on the next working day and not using the money to pay any expenses before banking in first.

Concerning safekeeping of cash and cheques, it was found that all Jameq Mosques practised good internal controls by placing cash/cheques in a safe place (e.g.: locked box/drawer) if it cannot be banked on the same day, and access to the safe/locked box is limited to authorized personnel only.

4.2.2 Segregation of duties
With regards to segregation of accounting duties, the main principle is to segregate the three functions; authorization, recording, and custodial functions. Checks and balances are essentials to make embezzlement difficult. For that reasons, no single person should be responsible to perform more than one function (Hall, 2008). In the case of Jameq Mosques in the central region of Malaysia, segregation of duties regarding the counting of money from collection and the recording of entries in the cash book seemed to be low. Only five Jameq Mosques (38.46%) segregated these duties.

4.2.3 Recording of transactions
Financial transactions need to be recorded as it provides audit trail. To ensure the accuracy of the recorded transactions, verification need to be done by authorized personnel (Sulaiman, Siraj, and Ibrahim, 2008). In the current study, 12 Jameq Mosques (92.31%) were found to have a good record-keeping of cashbook for cash/cheques received. Since all Jameq Mosques performed regular checking to ensure all incoming receipts are recorded regularly, it was found that one Jameq Mosque did not use cashbook to record cash/cheques received due to lack of accounting knowledge but applying their own recording format. This could be a reason why the score for question RT3 (Cash/cheques recorded in the cashbook are verified with the bank pay-in slips), and RT4 (The pay-in slips or cash receipts recorded in the cashbook are verified with the relevant bank statements) are similar (only 12 Jameq Mosques) due to the reason that one Jameq Mosque did not have cashbook for the purpose of verification.

4.2.4 Average score of internal controls on receipt of income
Comparing the three average scores (PC, SD, and RT) on internal controls for receipt of income; it can be concluded that JAWI and JAIS that responsible for carrying out the policies and procedures for developing and advancing Islam in each state should put extra effort regarding the practice of segregation of duties related to collection boxes. As SD was found to have the lowest score of controls implemented (38.46%), and due to the fact that cash is vulnerable to fraud and embezzlement, this area should be considered as a high risk and need extra attention and monitoring from the regulating bodies, and during the internal and external audit.

4.3 Internal controls practices on disbursing funds
4.3.1 Authorization
Payment should be supported by relevant documents such as invoice and payment voucher and payment approval based on limits should be imposed to ensure good internal controls practices in cash disbursement and to avoid fraud (Cuomo, 2005). It was found that all 13 Jameq Mosques used invoice and payment voucher as supporting documents for funds disbursement. The use of invoice by all Jameq Mosques in making payment was considered as a good practice as it signified that no staffs were allowed to do advanced payments to suppliers and claimed for reimbursements at a later date. However, only seven Jameq Mosques (53.85%) imposed authorization based on limits. In practice, a good internal control should ensure that payment should have various level of authorization based on limits for which higher limit should involve a committee to make a decision for the payment to avoid fraud and embezzlement.

4.3.2 Segregation of duties
Reviewing the scores for segregation of duties, it can be concluded that majority of Jameq Mosques (69.23%) were able to segregate the custodial function and authorization function. However, low scores on SD1 and SD2 showed that majority of Jameq Mosques did not practice a good segregation of duties in terms of recording and custodial functions.
4.3.3 Physical custody
All 13 Jameq Mosques in the central region of Malaysia have a good control on cheque books which are kept in a safe place (e.g.: safe, locked box or locked drawer)

4.4 Comparisons of internal controls practices between authorization, segregation of duties, and physical custody on disbursing funds
Comparing the three average scores (A, SD, and PC) on internal controls for disbursing funds; it can be concluded that similar to findings on receipt of income, SD for disbursing funds was found to have the lowest score (43.59%), and should be considered as having high risk of fraud. Further actions, attention and monitoring should be given by the regulating bodies. For example, training on proper accounting system should be organized by JAWI and JAIS to enhance internal controls practices by Jameq Mosques in the central region.

5 Conclusions
Findings suggested that there were no standard guidelines or policies on governance to be followed by the mosques. Whereas internal controls practices by Jameq Mosques on both receipt of income and funds disbursement requires significant attention regarding the segregation of duties element. Other elements of internal controls such as physical custody, recording of transactions, and authorization were at the accepted level.

6 Recommendations
This research contributed in improving the effectiveness and efficiency of Jameq Mosques in central region of Malaysia by highlighting strengths and weaknesses in its internal control systems which could be used as guidance in enhancing the level of internal control implementation. Eliminating the weaknesses or problems identified may improve the control over the resources, strengthen accountability, improve financial reporting and improve relationship with the stakeholder, thereby enhancing their desire to continue supporting the religious organizations with financial. Highlighting strengths and weaknesses allow for a set of best practices to be collected and used to improve the internal accounting control system.

References
Appendix 1: Internal Controls on Receipt of Income and Disbursing Fund

SECTION A: INTERNAL CONTROLS ON RECEIPT OF INCOME

<table>
<thead>
<tr>
<th>No.</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC1</td>
<td>All collection boxes are sealed or locked</td>
</tr>
<tr>
<td>PC2</td>
<td>All collection boxes opened regularly</td>
</tr>
</tbody>
</table>
| PC3 | Number of people present during the opening of the collection boxes:  
  i. One person  
  ii. Two persons  
  iii. More than two persons |
| PC4 | Counting of money from collection boxes done promptly once opened:  
  i. Yes  
  ii. Only few  
  iii. Not at all |
| PC5 | All money received from public donations are deposited at least on the next working day:  
  i. Yes  
  ii. Only few  
  iii. Not at all |
| PC6 | Incoming monies are not used to pay any expenses before banking in first |
| PC7 | All cash received are placed in a safe place (e.g.: locked box/drawer) if it cannot be banked on the same day |
| PC8 | All cheques received are placed in a safe place (e.g.: locked box/drawer) if it cannot be banked on the same day |
| PC9 | Access to the safe/locked box is limited to authorized person(s) only |

SECTION B: INTERNAL CONTROLS ON DISBURSING FUNDS

<table>
<thead>
<tr>
<th>No.</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Payments are supported by invoice</td>
</tr>
<tr>
<td>A2</td>
<td>Payment vouchers are prepared when making payments</td>
</tr>
<tr>
<td>A3</td>
<td>There are limits imposed on payment approvals at various levels of the committee members of the mosque</td>
</tr>
</tbody>
</table>

SECTION B: INTERNAL CONTROLS ON DISBURSING FUNDS

<table>
<thead>
<tr>
<th>No.</th>
<th>Controls</th>
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<tbody>
<tr>
<td>SD1</td>
<td>The counting of money from collection boxes is done by a different person from the person who makes entries in the cash book</td>
</tr>
<tr>
<td>RT1</td>
<td>The mosque maintain a cashbook for cash/cheques received</td>
</tr>
<tr>
<td>RT2</td>
<td>Checks are conducted to ensure the incoming receipts are recorded regularly</td>
</tr>
<tr>
<td>RT3</td>
<td>Cash/cheques recorded in the cashbook are verified with the bank pay-in slips</td>
</tr>
<tr>
<td>RT4</td>
<td>The pay-in slips or cash receipts recorded in the cashbook are verified with the relevant bank statements</td>
</tr>
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<table>
<thead>
<tr>
<th>No.</th>
<th>Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD1</td>
<td>The person preparing payment vouchers is different from the person preparing cheques</td>
</tr>
<tr>
<td>SD2</td>
<td>The person preparing payment documentation is different from the person signing cheques</td>
</tr>
<tr>
<td>SD3</td>
<td>The person approving payments is different from the person preparing cheques</td>
</tr>
<tr>
<td>PC1</td>
<td>Cheque books are kept in a safe place (e.g.: safe, locked box or locked drawer)</td>
</tr>
</tbody>
</table>