



ACCOUNTING PRACTICES OF RELIGIOUS  
ORGANIZATION: THE CASE OF MOSQUES IN  
KUALA TERENGGANU

BY

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## ABSTRACT

Mismanagement of funds in religious organizations especially in Western church organization has becoming more common. Such scandals had affected the credibility of religious organizations where it always being seen as ‘sacred’ organizations and people working there are considered to have high moral values. This scandal happens due to poor accounting practices and internal control in the religious organizations (Abdul Rahman and Goddard, 1998; Bowrin, 2004 and Sulaiman et al, 2008). Since the nature of Islamic religious organizations is comparable to church organizations, it is not surprising to note that mismanagement of funds also happens in the Islamic religious organizations. This study is aim to examine the accounting practices in one of the Islamic religious organizations which is mosques by focusing on *qaryah* mosques in Kuala Terengganu. Mixed methods (quantitative and qualitative) of data collection were used in this study. The questionnaire was disseminated to seventy-six *qaryah* mosques in Kuala Terengganu but only thirty-nine responded. This study found that *qaryah* mosques in Kuala Terengganu have implemented strong control over internal control on receipt of income and satisfactory control over financial accounting and reporting. Nevertheless, they have weak control for disbursement of income and budgetary practices. This study also performed regression analysis to test the association between internal control in the receipt and disbursement of income with the qualification of the treasurer, location of the mosque and Friday collection. The analysis only showed a significant relationship between internal controls for receipt of income with location of the mosque. Overall, it appears that *qaryah* mosques in Kuala Terengganu do implement accounting and internal control procedures. However, what is clearly lacking is the segregation of duties. Hence, the accounting practice and control in *qaryah* mosques need to be improved so that the risk of embezzlement could be reduced.

## خلاصة البحث

إن سوء إدارة الاموال في المنظمات الدينية وخصوصا في كنائس الغرب التي اصبح شائعا فيها سوء ادارة الاموال .وقد أثرت هذه الفضائح بمصدافية هذه المؤسسات الدينية والتي دائما ينظر اليها الناس بمصدافية بسبب قداستها وبأن الناس العاملين فيها متمتعين بقيم أخلاقية عالية.هذه الفضائح حدثت بسبب ضعف الممارسات المحاسبية والرقابة الداخلية عليها في المنظمات الدينية (مثل فضيحة عبد الرحمن وغودارد عام 1998 .بورين عام2004.وسليمان واخرون عام 2008).وبما ان طبيعة المنظمات الدينية الاسلامية متجانسة مع المنظمات الدينية الكنائسية ,فليس من الغريب ملاحظة وجود سوء الإدارة في المنظمات السلامية ايضا.هذه الدراسة تهدف لدراسة الممارسات المحاسبية في إحدى المنظمات الدينية الاسلامية والتي هي المساجد مع التركيز على مسجد قرية في مدينة كوالا ترنجانو .بمجموعة طرق رياضية (كميو ونوعية) استخدمت في تجميع البيانات لهذه الدراسة.الاستطلاع(الاستبيان) غطى 76 مسجد في قرية ترنجانو لكن لم يستجب لهذا الاستبيان سوى 39 مسجد.وقد وجدت هذه الدراسة ان مساجد ترنجانو نفذت سيطرة قوية على الرقابة الداخلية والدخل المالي والسيطرة على مشاكل المحاسبة المالية واعداد التقارير المالية.ومع ذلك يوجد ضعف بالرقابة على توزيع الدخل والممارسات المتعلقة بالميزانية.هذه الدراسة ايضا قامت بتحليل الانحدار لإختبار العلاقة بين الرقابة الداخلية للمقبوضات ومصروفات الدخل بالأضافة لتأهيل أمين الصندوق,موقع المسجد وصلاة الجمعة.والتحليل أظهر علاقة ذات دلالة أحصائية بين السيطرة الداخلية لايرادات الدخل المالي للمسجد وموقعه.عموما,اظهرت الدراسة ان المساجد في كوالا ترنجانو اداة تستخدم للمعاملات التجارية وإجراءات السيطرة.ومع ذلك,فإنه من الواضح انه لا يوجد فصل بين الواجبات .وبالتالي,إن ممارسة المحاسبة والتحكم والسيطرة في مساجد قرية تحتاج إلى تحسن بحيث يمكن ذلك من تخفيض خطر الأختلاس .

## **APPROVAL PAGE**

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## **DECLARATION**

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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## LIST OF ABBREVIATIONS

PBUH	Peace Be Upon Him
IRC	Islamic Religious Council
IRD	Islamic Religious Department
JAKIM	Malaysian Department of Islamic Development
BAHEIS	Islamic Affairs Division
KESUMA	Division of Family, Social and Mosques Development
MAIDAM	Terengganu Islamic Religious Council
JHEAT	Terengganu Islamic Religious Department
KLCC	Kuala Lumpur City Centre
NGOs	Non-Government Officers
NPO	Non-Profit Organization
GAAP	Generally Accepted Accounting Principles
US	United States
SPSS	Statistical Package for the Social Sciences
AVE	Average
SIRC	State Islamic Religious Council
et al.	( <i>et alia</i> ): and others

# CHAPTER ONE

## INTRODUCTION

### 1.0 BACKGROUND OF THE STUDY

The 2011 Marquet Report on Embezzlement<sup>1</sup> shows that non-profit and religious organizations combined accounted for about one-sixth of all the major embezzlement incidents in the 2011 study. Although the number of cases is not too big compared to other industries, it is a cause for concern, as embezzlement could have a major impact on both types of organizations in their ability to serve the communities. Such fraud should not occur in religious organizations due to the important role they play in society. Religious organizations, as the name implies, should show a good example to the communities. The sources of income, which are mostly dependent on public funds, should be managed in a proper way to avoid them from being misused by irresponsible people.

Good financial management requires adequate financial control since it is important for organizations, including religious organizations to adequately steward public money. This will also help organizations to prevent the misappropriation of funds. However, prior studies have found that there are poor accounting practices and a lack of internal control in religious organizations (Abdul Rahman and Goddard, 1998; Duncan, Flesher and Stocks, 1999; Ahmad et al., 2001; Bowrin, 2004; Sulaiman et al., 2008). According to Busby (2005), this problem also occurs in church organizations that face mismanagement scandals. In fact, this scenario has manifested

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<sup>1</sup> The 2011 Marquet Report on Embezzlement is an annual white collar fraud study on major embezzlement cases in the United States, which aims to identify the key trend of major embezzlement cases active during each year. In 2011, 473 significant cases were analyzed.



itself too often in churches across America (Busby, 2005), and is a cause for concern since the scandals also happen in Islamic religious organizations. In a recent case, a former collector of tithes pleaded guilty to committing a criminal breach of trust involving RM19,510 (Hafidzin, 2011). This scandal not only affected the credibility of religious organizations as a whole but also the institution of the mosque since the collector of tithes was also a former *imam* at one of the mosques in Johor. Additionally, religious organizations are always seen as ‘sacred’ organizations and people working there are considered to have high moral values.

Ventura and Daniel (2010) listed the opportunities for fraud and embezzlement in religious organizations. One of the opportunities that emerge in the organization is the level of trust and the practice of accounting. People who have a high level of trust do not demand more in respect of the accounting. This is because they believe that embezzlement will not happen in religious organizations. However, the truth is that trust actually drives the opportunity to commit fraud. The lack of accountability and transparency will increase the opportunity for fraud and abuse (Dellaportas et al., 2008). Hence, it is clear that proper accounting practice and strong internal control will help to reduce the number of embezzlement cases.

This paper tries to examine the accounting practices in an Islamic religious organization, which is the institution of the mosque. Accounting practice is used by accountants in preparing accounts and may differ according to the type and nature of the organization, culture and accounting policy (Hopwood, 1983). Thus, the unique characteristics possessed by religious organizations may require different accounting treatment to other organizations. This study will examine three elements of accounting practices – financial accounting, management accounting and auditing. While financial accounting is concerned with preparing information for outsiders,

management accounting provides information for use within an organization. Therefore, financial accounting is related to the financial statements and management accounting is connected to the decision making, planning and management matters of the organization. Auditing is different from the two types of accounting mentioned before because it focuses on the evaluation of people, organizations and the work done. It also assesses the internal control in the organizations, which is examined in this study, together with financial and management accounting.

This study focuses on the state of Terengganu in the east of Peninsular Malaysia due to its strong Islamic ethos, which has led to the state being recognized as a conservative Muslim state (Richmond et al., 2007). In addition, Terengganu is also known as one of the first states to receive Islam (Richmond et al., 2007 and Hussein et al., 2008). Thus, it is expected that Terengganu is concerned about its Islamic culture, particularly since it has a large number of mosques in the state. Out of seven districts in Terengganu, Kuala Terengganu was chosen for the study. This is because it has the largest number of *qaryah* mosques compared to other districts. A study done by Siraj (2004) classified the types of mosque in Malaysia into state mosques, district mosques, *qaryah* mosques and privately funded mosques. With some differences, there are two main categories for mosques in Terengganu – government mosques and *qaryah* mosques. State mosques and district mosques are under the category of government mosques. While the study done by Siraj (2004) and Sulaiman et al. (2008) examined state mosques, this study concentrates on the other type of mosque, known as *qaryah* mosques. *Qaryah* mosques are usually located near residential areas, and, hence, most of the people that use the mosques are the local residents in that area. Normally, they are frequented by local residents within the *qaryah*, who may be some distance away from the district mosques.

Neither of the types of mosque in Terengganu is funded by the state government. Instead, they are totally dependent on the donations from the members and the public. However, they can apply for funds from the state government to repair or improve the mosque buildings. As *qaryah* mosques are located within a residential area, they are expected to have a larger congregation each prayer time, and, hence, may receive more donations from the public compared to the other type of mosque. Thus, it is interesting to examine how public funds are managed in the *qaryah* mosques. This paper will examine the accounting practice in *qaryah* mosques in Kuala Terengganu.

### **1.1 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS**

The issue of the mismanagement of funds in Western church organizations and poor accounting practices in religious organizations constitute the problem statement used in this study, which has led it to examine the accounting practices in mosques being one of the religious organizations. Since the nature of Islamic religious organizations is comparable to church organizations, it is not surprising to note that mismanagement of funds also happens in the Islamic religious organizations, as mentioned in the above section. In order to avoid such an occurrence, Islamic religious organizations should have proper accounting practices. This has raised the question as to whether such organizations really view accounting as an important tool in managing the funds of the mosques.

Jayasinghe and Soobaroyen (2009), in conducting a study on Buddhist and Hindu temples, found that there is a strong correlation between attitude towards accounting practice and religious spiritual values. They found that people bound by high religious spirit might see accountability as a social practice, and, indirectly, will

view accounting as necessary to discharge the accountability even though they are not required to do so by any guideline or standard. That is why the preparations of accounts in those organizations are usually informal and more on a voluntary basis. In addition, a study conducted on Islamic religious organizations in Malaysia suggests that the role of accounting and the authority of the accountant are different among Islamic religious organizations due to the different cultural perspective (Abdul Rahman and Goddard, 1998). As, to date, no study has examined the accounting practices of mosques in Terengganu, this study tries to fill the lacunae by conducting a research on *qaryah* mosques in Terengganu. There are four primary objectives of the study, as follows:

- i) To examine the existing accounting practices, which comprise financial accounting, management accounting and internal control, in mosques in Kuala Terengganu.
- ii) To gain a better understanding concerning the approach used by mosques in Kuala Terengganu in respect of their financial management.
- iii) To examine the perception of the congregation in *qaryah* mosques in Kuala Terengganu towards accounting practice and internal control.
- iv) To examine factors that may influence the internal control of receipts and payment in *qaryah* mosques in Kuala Terengganu.

Accordingly, one general question and six specific research questions were developed in order to achieve the above objectives. The research questions are:

**General research question:** What are the accounting practices of mosques in Kuala Terengganu?

**Specific research question 1:** How are accounts prepared and communicated to the *qaryah* members?

**Specific research question 2:** Are there any procedure manuals used in preparing the accounts?

**Specific research question 3:** Do mosques in Kuala Terengganu prepare budgets?

**Specific research question 4:** Is there proper internal control for the receipt and disbursement of funds?

**Specific research question 5:** What is the perception of respondents with regard to the accounting practice and internal control of *qaryah* mosques?

**Specific research question 6:** Are there any factors that can explain the extent of internal control practice in *qaryah* mosques in relation to receipts and payments?

The first four specific research questions were developed based on the three elements in accounting practice, namely, financial accounting, management accounting and auditing. The last two provide additional information regarding the insights of the respondents concerning the accounting practice and factors that influence internal control practice in the mosque.

## **1.2 MOTIVATION FOR THE STUDY**

There are certain factors that created the motivation for this study. First, prior literature indicates that religious organizations are likely to be inefficient in the way they administer financial management, and, consequently, are exposed to the risk of fraud and mismanagement. Being a religious organization, the accounting practices in mosques are examined. The important role played by mosques in Muslim society means that such organizations are expected to have high standards of financial

stewardship. This study is motivated by the desire to know the accounting practices being practised in mosques.

Second, to date, there is a lack of studies that examine the accounting practices in religious organizations in Malaysia. Hence, this study tries to fill the gap by focusing on mosques as one of the Islamic religious organizations.

Third, since the previous study done by Siraj (2004) only focuses on state mosques, this study attempts to extend the study to other types of mosque, namely, *qaryah* mosques. *Qaryah* mosques, which are mostly located in residential areas, are closer to the people around them. Compared to the other types of mosque, the members of *qaryah* mosques normally consist of residents from the area (*qaryah*) and the number of people using the mosques is usually large since they are usually located in the vicinity of the residential areas. Thus, *qaryah* mosques are expected to receive large amounts of money from donations since the mosques in Terengganu are totally funded by *qaryah* members and the public. Consequently, the scope has been narrowed down to just one state – Terengganu – which is recognized as being among the first states that received the Islamic influence and still practices high Islamic values in the government until now (Hussein et al., 2008). Thus, it is interesting to know how they conduct the management of their mosques.

### **1.3 SIGNIFICANCE OF THE STUDY**

This study is significant in several aspects. First, the nature of mosques as a non-profit organization is different from profit organizations. While profit organizations focus on increasing profit and are profit oriented, the main focus of non-profit organizations is to achieve their mission and objectives rather than to accumulate profit. The different nature of these two types of organization has led to the different treatment in

accounting. Many more studies investigate accounting practices in profit organizations compared to non-profit organizations, especially religious organizations (Duncan, Flesher and Stocks, 1999). Thus, this study is significant in increasing the number of studies in the non-profit area, especially Islamic religious organizations, and contributes to the literature.

Second, the results of this study will help both the Terengganu Islamic Religious Council and Terengganu Islamic Religious Department to address the strength and weaknesses of financial management in the *qaryah* mosques in Terengganu, and, hence, improve the accounting practices and better manage the finances of the mosques. In addition, it is hoped to assist all types of mosque have a proper accounting practice and reduce the opportunity for fraud and the embezzlement of funds. This is good to ensure the good reputation of mosques as well as benefit the donors who usually expect their money to be well managed.

Third, the results of this study can also assist future researchers who are interested in studying the accounting practices of religious organizations in Malaysia by providing some basis and ideas regarding the issues that arise in the management of mosques.

#### **1.4 DATA COLLECTION**

This study was conducted using both qualitative and quantitative methods of data collection. The quantitative method of data collection was done in the first stage where the questionnaire was developed and disseminated to the *qaryah* mosques in Kuala Terengganu. Then, it proceeded with the qualitative method of data collection – interviews (Quinlan, 2011; Sekaran and Bougie, 2010; Myers, 2009). Semi-structured interviews were conducted to obtain clear information regarding the accounting

practice in the mosques. The data were analysed using descriptive statistics and multivariate analysis where three hypotheses were tested using regression.

## 1.5 THE ORGANIZATION OF THE DISSERTATION

This section will elaborate on the organization of the dissertation, which comprises seven chapters. The relationship and flow of each chapter is shown in Figure 1.1 below:

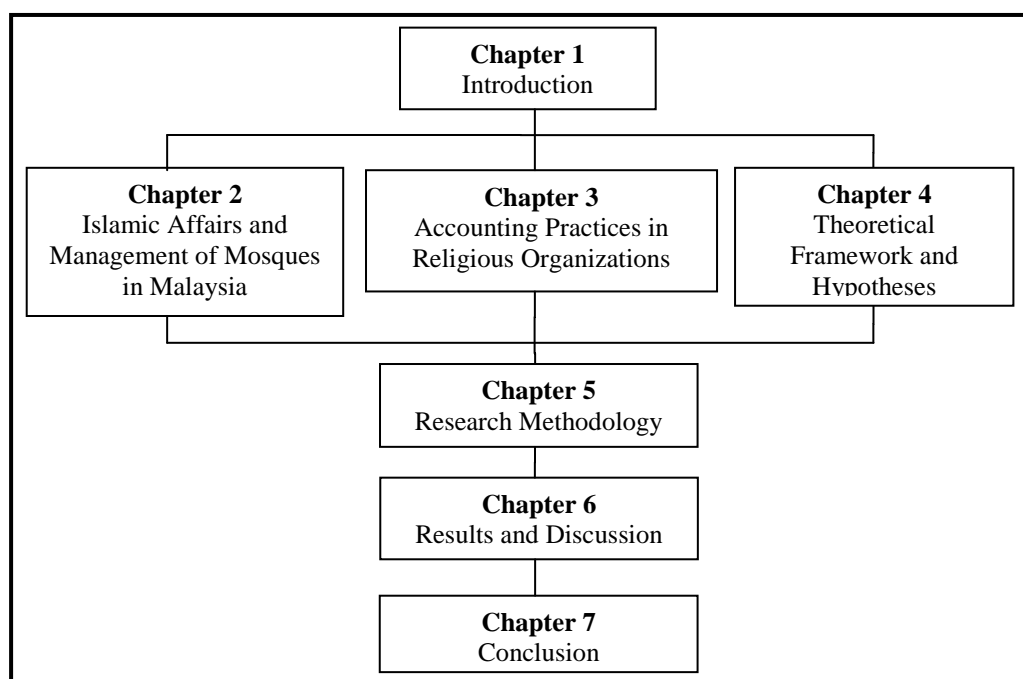


Figure 1.1: Flow of chapters

The structure of the thesis is as follows:

### **Chapter 1: Introduction**

This chapter has provided a background to the study and further explains the research framework, which comprises the problem statement, objective of the study, motivation of the study and significance of the study.