

Financial Disclosure and Budgetary Practices of Religious Organization: A Study of *Qaryah* Mosques in Kuala Terengganu

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Abstract: This paper aims to examine the financial reporting and budgeting practices of *qaryah* mosques in Kuala Terengganu, a state in the east of Peninsular Malaysia. Data was collected using a mixed method (quantitative and qualitative) approach. The questionnaire was disseminated to *qaryah* mosques in Kuala Terengganu and 39 responded. To address the limitations of a questionnaire survey, semi-structured interviews were then conducted with a few of the respondents. The results revealed that *qaryah* mosques in Kuala Terengganu do have a satisfactory system in place in terms of their financial reporting practices. However, budgetary control practices appear to be lacking. This indicates accounting, as is practiced by *qaryah* mosques in Kuala Terengganu appears to be limited to financial accounting. Hence, the financial management in *qaryah* mosques needs to be improved so that the risk of embezzlement can be reduced.

Abstrak: Penelitian ini bertujuan untuk menguji pelaporan dan penganggaran praktek keuangan masjid-masjid *qaryah* di Kuala Terengganu, Negara bagian di timur Semenanjung Malaysia. Pengumpulan data dilakukan dengan menggunakan metode pendekatan campuran (kuantitatif dan kualitatif). Kuesioner disebarakan ke masjid-masjid *qaryah* di Kuala Terengganu dengan jawaban yang diterima sebanyak 39. Untuk mengatasi keterbatasan survei kuesioner, kemudian dilakukan wawancara semi-terstruktur dengan beberapa responden. Hasil penelitian menunjukkan bahwa masjid-masjid *qaryah* di Kuala Terengganu memiliki sistem yang memuaskan dalam hal praktek pelaporan keuangannya, namun, nampaknya kurang dalam praktik kontrol anggaran. Hal ini menunjukkan bahwa akuntansi, seperti yang dilakukan oleh masjid-masjid *qaryah* di Kuala Terengganu tampaknya hanya terbatas pada akuntansi keuangan. Oleh karena itu, manajemen keuangan di masjid-masjid *qaryah* perlu ditingkatkan sehingga risiko penggelapan dana dapat dikurangi.

Keywords: accountability; budgets; financial reporting; *qaryah* mosques; religious organizations

JEL classification: M4

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Introduction

Accounting malpractice in religious organizations has affected the credibility of such organizations. In a recent case, a finance administrator at Chester United Methodist Church was charged with embezzling more than \$500,000 from the church (Remmers 2013). The same phenomenon has also occurred in other religious organizations, and in mosques. A former collector of tithes pleaded guilty to committing a criminal breach of trust involving RM19,510 (Hafidzin 2011). Religious organizations and mosques are regarded as 'sacred' and people who worked there or are associated with them are perceived to have high moral values. However the increase in financial scandals, like the misappropriation of funds, amongst these institutions is still baffling. Most of these misappropriations are brought about by poor accounting and internal control practices (Abdul Rahman and Goddard 1998; Bowrin 2004 and Sulaiman et al. 2008). The same holds true for mosques in Kuala Terengganu (a state in Malaysia that has a population who are more than 96% Muslim) and indeed it is an interesting issue to pursue. This is precisely what this paper attempts to address. It sets out to investigate the financial accounting and budgeting practices of *qaryah* mosques in Kuala Terengganu. This study scrutinizes the preparation of accounts, which includes reporting (here disclosure) and budgets by the *qaryah* mosques, and aims to answer the following research questions.

RQ 1: Do mosques in Kuala Terengganu prepare accounts and disclosed them to the qaryah members?

RQ 2: What is the extent of disclosure practices by qaryah mosques?

RQ 3: Do mosques in Kuala Terengganu prepare budgets?

RQ 4: What is the extent of budgetary practices by qaryah mosques?

Our study adds to the literature by reducing the dearth in the study of accounting and budgeting practices at religious institutions like mosques. Our study extends the work of Siraj (2004) which focused on the state mosques, while we examine the accounting and budgeting practices of *qaryah* mosques. This is important as *qaryah* mosques are mostly located in residential areas and are closer to their local communities. Compared to other types of mosques, members of *qaryah* mosques normally consist of residents within the mosque's vicinity and they tend to accommodate a large number of worshippers.

Qaryah mosques are totally funded by *qaryah* members and guest worshippers through donations. (Said et al. 2013). The large amounts of donations received by *qaryah* mosques may give rise to misappropriation should there be no proper internal control (Sulaiman et al. 2008; and Wooten et al. 2003). Examining the financial management practices of these organizations would indeed be important, as the results may provide information for these mosques to address any problems they have in the management of their funds. Having the largest number of *qaryah* mosques compared to other districts in Terengganu, Kuala Terengganu would provide a richer data source for our questionnaire survey, as the larger the sample, the better it is for statistical analysis and to be able to make generalizations.

The remainder of the paper is structured as follows. The next section elaborates on the accounting practices in Islamic religious organizations. Section 3 discusses the administration of Islamic affairs in Malaysia while section 4 explains accounting and the concept of accountability as it applies to Islamic

religious organizations. Section 5 focuses on the research method while the analysis and findings are discussed in section 6. Section 7 concludes.

Accounting Practices in Islamic Religious Organizations

Good financial management requires adequate financial control since it is important for organizations, including religious organizations, so that public funds will be taken care of (Siraj 2004; and Agus et al. 2009). However, prior studies have found evidence that there exists poor accounting practices and a lack of internal control in religious organizations (Abdul Rahman and Goddard 1998; Duncan et al. 1999; Ahmad et al. 2001; Bowrin 2004; and Sulaiman et al. 2008). While there have been many studies focusing on Western church organizations (Woodbine 1997; Duncan et al. 1999; Duncan and Flesher 2002; Parker 2002; Wooten et al. 2003; Bowrin 2004; Elso et al. 2007; and Ventura and Daniel 2010), studies on mosques are lacking. The study by Sulaiman et al. (2008) on the financial management of state mosques in Malaysia is indeed, commendable. They found that there were strong internal controls in the receipt and disbursement of funds in Peninsular Malaysia's state mosques. However, Siraj (2004), found less than satisfactory use of their budgets and reporting. The results appear to be consistent with that of Wooten et al. (2003). In their study on churches, they found adequate controls over cash receipts but weaknesses in their disbursement and reporting. Further, Ahmad et al (2001) and Mohamed-Adil et al. (2012), in their study examining the efficiency of fund management by mosques, found that most of the mosques relied on public donations to get their funds. However,

such mosques failed to invest the funds to earn more income.

Factors Influencing Accounting Practice in Religious Organizations

There are several issues that have been commonly discussed in prior studies to explain accounting practices in religious organizations. These include the distinction between the sacred and the secular (Laughlin 1988; Booth 1993; Woodbine 1997; and Parker 2002), the high trust environment within the organizations (Throop 2001; Duncan and Flesher 2002; Wooten et al. 2003; Busby 2004; Busby 2005; Jayasinghe and Soobaroyen 2009; Afifuddin and Siti Nabiha 2010; Ventura and Daniel 2010; and Enofe and Amaria 2011), the person in charge of the financial management of the religious organization lacking a financial management background (Duncan et al. 1999; Duncan and Flesher 2002; Parker 2002; Wooten et al. 2003; Elson 2007; Sulaiman et al. 2008; Ventura and Daniel 2010; and Enofe and Amaria 2011) and the lack of the element of the "involved owner" (Duncan et al. 1999; Ventura and Danie 2010; and Afifuddin and Siti Nabiha 2010).

Between the Sacred and the Secular

Accounting was initially not considered important in the church due to the distinction made between the sacred and the secular (Laughlin 1988; and Morgan 2009). The dichotomy between sacred and secular activities placed accounting as a secular activity. Accordingly, accounting cannot be practiced together with the sacred activities of the church (Laughlin 1988; and Booth 1993). The existence of a sacred secular divide in church organizations is, however, not supported by the results from studies conducted by some other scholars. Jacobs (2005), for

example, provides evidence that although the jurisdictional conflict between accountants and the clergy contribute to the resistance of accounting practice in the church, it does not mean that accounting is not necessary. People in the church prefer accounting activities to be undertaken by someone with a religious connection such as the clergy (even though they are not adequately qualified). Accountants may give advice but they should not be put in control. Irvine (2005) also found that the need for accounting to achieve the sacred mission of the church organization is pertinent. Thus, the resistance to accounting, in principle, is minimal. Theoretically, the issue of the sacred and secular divide does not exist in Islamic organizations. According to Islamic teachings, there is no dichotomy between the worldly life and the hereafter (Abdul-Rahman and Goddard 1998) and the Islamic concept of accountability does not recognize the distinction between the sacred and the secular (Sulaiman et al. 2008).

The Issue of Trust

It is believed that nonprofit organizations have an environment of high trust which makes them vulnerable to fraud and abuse (Ventura and Daniel 2010). Many nonprofit organizations, particularly in the case of religious organizations, assume a high level of morality among their members and staff (Bowrin 2004; Jayasinghe and Soobaroyen 2009). Given this, 'secular' controls, such as accounting, appear not to be important. Trust is one of the factors that contribute to the mismanagement of funds. In many embezzlement cases, trust is misplaced in the embezzler (Elson 2007). Such a high level of trust will lead to very little need for supervision. This would, in turn create opportunities for fraud (Ventura and Daniel 2010). The study conducted by Sulaiman et al. (2008) provides

further evidence that the element of trust renders internal controls unnecessary. Subsequently, this may provide an opportunity for fraud and also fraud that is difficult to detect, given that the perpetrators are "trusted" individuals.

Lack of Accounting and Financial Management Background

Another factor that contributes to the poor accounting practices of religious organizations is due to the fact that people who handle the financial management of such organizations lack an accounting and financial management background (Enofe and Amaria 2011). With reference to Duncan et al. (1999), the educational background of the treasurer in the church contains little or no training in business management or accounting. In fact, a study conducted by Elson et al. (2007) found that church accounting personnel do not really know the requirements for preparing financial reports using generally accepted accounting principles. This is not peculiar to church organizations. Mosques too face the same problem. This is evidenced in the study of Sulaiman et al. (2008). They found that the absence of certain control systems in state mosques is due to a lack of accounting knowledge of the persons entrusted with mosque funds. More specifically, the treasurer has insufficient knowledge concerning the importance of the relevant internal controls.

Involvement of Volunteers

The high levels of involvement by volunteers may yet be another important contributory factor to the mismanagement of funds in religious organizations. Most financial programs of religious organizations are handled by volunteer treasurers, who might lack skills in internal control design and information system development (Wootenet al.

2005; Ventura and Daniel 2010). Additionally, given the inadequate training provided for volunteer treasurers on accounting matters, it is not surprising that there exists improper accounting practices and poor internal controls in religious organizations.

The Lack of the “Involved Owner”

Unlike businesses, non-profit organizations are non-stock entities where the ownership rests with the members or supporters of the organization. The absence of stock ownership may affect the management control process because managers might not consider themselves as accountable to donors as they would to the owner (Duncan et al. 1999). According to Ventura and Daniel (2010), the lack of an involved owner in monitoring the financial condition of the organization as a matter of self-interest may result in a lack of financial control and poor financial management, which will then create the opportunity for fraud. Churches, temples and mosques are among the nonprofit organizations that possess the characteristics just discussed. Afifuddin and Siti Nabiha (2010) highlighted the same - that religious based organizations lack ownership and the absence of a profit motive. As such, these organizations generally lack transparency and accountability to the public and their donors.

Administration of Islamic affairs in Malaysia

Malaysia consists of thirteen states (Selangor, Perak, Pulau Pinang, Perlis, Kedah, Kelantan, Terengganu, Pahang, Negeri Sembilan, Melaka, Johor, Sabah and Sarawak). According to the Ninth Schedule, of the Federal Constitution of Malaysia, Malay custom and Islamic law falls under the purview of each state jurisdiction except for the Federal Territory. Accordingly, any mat-

ters that relate to the mosque are under the jurisdiction of the state government through the Islamic Religious Councils. As a consequence, the implementation of Islamic Law in each state varies. More importantly, the Islamic Religious Council of each state acts as a sole trustee of the mosques. However, each mosque has its own committee with a chairman to manage the mosque.

In general, mosques can be classified into four categories –state mosques, district mosques, subdistrict or *qaryah* mosques and private mosques (Siraj 2004). These four types of mosques are distinguished according to how they are managed and also where they are located. The first is the state mosque. These mosques are managed by the state government and there is only one state mosque for each state in Malaysia. In contrast, district mosques are located in various districts in the state and are also governed by the state government. The subdistrict or *qaryah* mosques are usually partially administered by the state government. Located in residential areas, *qaryah* mosques rely to a great extent on the public for funding. However, the state government still has the power to oversee the management of the *qaryah* mosques, even though its power over *qaryah* mosques is limited. Private mosques are those that are owned and managed by private organizations or individuals. Hence, the activities and programs of these mosques are not subject to the policies of the state or federal government (Siraj 2004).

In Terengganu, mosques are generally classified into two types –government mosques and *qaryah* mosques. Government mosques consist of the state mosque and the district mosques. There are 487 mosques in Terengganu, with 127 of these situated in Kuala Terengganu (www.jheatweb.terengganu.gov.my 2013). Out of the 127

mosques in Kuala Terengganu, 113 are *qaryah* mosques.

Sources of Funds and Management of Mosques

Government and *qaryah* mosques in Terengganu are rather similar, as both rely on public donations. Generally, the government does not provide funds for these mosques. However, the government does provide funds for the repair and “improvement” of these mosques. The difference between the government mosques and *qaryah* mosques is the way the mosques are managed. According to Siraj (2004), there are three parties involved in the general administration of state mosques – the state Islamic Religious Department, the officers of the state mosques and the state mosque committees. The officers of the state mosques are considered as government servants and will receive a monthly salary paid by the State Government. However, *qaryah* mosques do not have officers managing the mosques, other than the *imam* (an Islamic leader, often the leader of a mosque) and *bilal* (the Muslim official of a mosque who calls for prayer). Hence, most of the committees in the *qaryah* mosques comprises of volunteers and are appointed by the members of the mosques at the annual general meeting. Even though *qaryah* mosques rely heavily on the public and volunteers, the administration and management of the mosques are still under the purview of the state government.

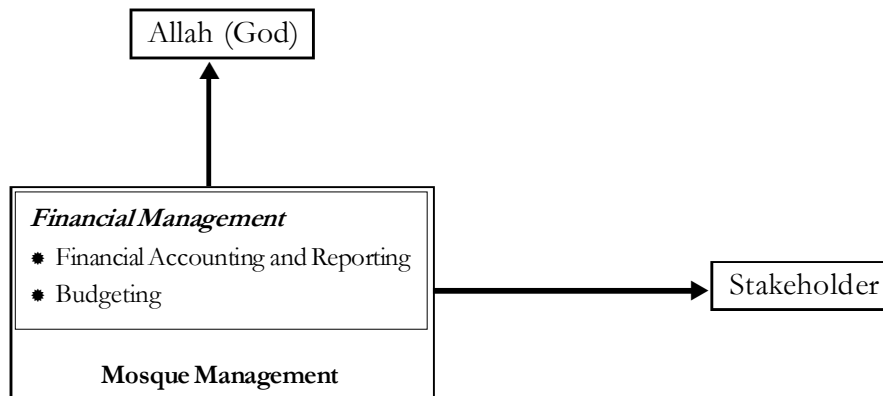
In terms of financial management, the financial guidelines of *qaryah* mosques are based on the guidelines stipulated in the enactment of Islamic affairs. According to the Terengganu Religious Officer, the income for *qaryah* mosques in Terengganu depends on the area but it is usually very minimal. Basically, the income is used to pay for the utilities. In general, the Islamic Religious Depart-

ment requests *qaryah* mosques to have two main accounts, which comprise a general and a specific account. While the money from the general account is used to pay regular expenses, such as utility bills, the specific account is used for repairs to the mosque buildings. Separating the funds of the mosque into two accounts enables the treasurer to manage the funds according to their priority.

Accounting and Accountability

In Islam, accountability has broader economic and social objectives in which economics, politics, religious and social affairs, including accounting, fall under the jurisdiction of the divine law of Islam (*Shari'ah*) (Lewis 2006). As such, Islamic accountability is dual in nature - stressing accountability to one's fellow beings as well as accountability to Allah (God). Additionally, the word *bisab* is repeated more than eight times in different verses in the Quran, showing the important link between accounting, reporting and accountability (Nahar and Yaacob 2011). Budgeting and disclosure are necessary to ensure that accountability is properly (satisfactorily) discharged. While a budget helps to plan the utilization of the resources in an efficient and effective way, reporting communicates on how an organization utilizes the resources to the users. Having a budget encourages participants of the management team to discuss and plan the use of the resources (Parker 2002). Such involvement may indirectly motivate the team to properly discharge their accountability to the stakeholders, and, hence, lessen the risk of embezzlement in the organization. Lewis (2006) argued that in Islam truth, and fair and accurate disclosures are important elements of financial information. Adequate disclosure does not mean that all activities need to be included in the financial statement. Rather,

Figure 1. Research Framework



the financial statement only needs to contain relevant and significant information that is useful to its users. Both budgeting and reporting are important tools for humans to evaluate their sacred accountability to both their fellow humans and *Allah* (God) (Nahar and Yaacob 2011).

In the context of this study, the management of a mosque is accountable to *Allah* and to the stakeholders. These stakeholders include the *qaryah* members, donors and the Islamic Religious Council/Department. Since accounting is one of the tools that reflect on accountability (Nahar and Yaacob 2011), to some extent, mosques may discharge their accountability through accounting practices. This study focuses on both the financial and management accounting aspects of accounting. The first is examined through financial reporting while the second concentrates on budgeting practices. According to various authors, both financial reporting and the use of budgets lead to better financial management and control (Duncan et al. 1999; Parker 2002; Bowrin 2004; Sulaiman et al. 2008; Jayasinghe and Soobaroyen 2009; Ventura and Daniel 2010; Enofe and Amaria 2011). The research framework is illustrated in Figure 1.

Methods

This study opts to use the mixed methodology of data collection, which combines quantitative and qualitative methods. The quantitative data collection method is based on the questionnaire while the qualitative method is grounded in the interview (Quinlan 2011; Sekaran and Bougie 2010; and Myers 2009). This multi-method of data collection is believed to give more credibility to the research instrument and to the data obtained. In fact, the collection of data from multiple sources and through multiple data collection methods will assist in producing good research (Sekaran 2003).

There were four stages involved in gathering our data. In the initial stage, the Terengganu Islamic Religious Department (JHEAT) was contacted to obtain the contact numbers for the *qaryah* mosques in Kuala Terengganu. The list given contained the contact numbers of the secretaries of the *qaryah* mosques in Kuala Terengganu. In the second stage of data collection each *qaryah* mosque on the list was contacted to inform them about the questionnaires and ask for their cooperation as a respondent. They were also required to give the mailing address to which

the questionnaires should be posted. The questionnaires were then disseminated to the mosques in the sample as the third stage of data collection. Each mosque received an envelope containing a cover letter, the questionnaire, as well as a new envelope complete with a new stamp and the researcher's address to assist them in returning the questionnaire. They were given one month to respond, and after one month, a reminder was given by telephone. Based on the answers given in the questionnaire, semi-structured interviews were conducted to obtain additional information and to obtain more valuable data with regard to the accounting practices in the *qaryah* mosques. This was done by telephone and also face-to-face interviews. This happened in the fourth stage of our data collection.

The sample. There are 438 *qaryah* mosques in Terengganu. Kuala Terengganu has 113 *qaryah* mosques. However only 76 mosques have contact numbers and the questionnaires were distributed to these mosques (<http://jheatweb.terengganu.gov.my/>).

The questionnaire. The questionnaire was divided into two parts. The first part covers general demographic information, while the second part focuses on answering the research questions. The questionnaire consists of both "fixed alternative" and "open ended" questions. As indicated in the introduction to the paper, the primary research questions of interest relate to whether *qaryah* mosques in Terengganu have proper financial reporting and a budgetary control system in place. A total of 26 sub-questions were developed which covered the accounting procedures, the qualification of the treasurer in the accounting field, the preparation of financial statements and annual reports, audit practices, the distribution of the financial information to the stakeholders (i.e., *qaryah* members, Islamic

Religious Department) and budgetary controls.

The questionnaire was initially prepared in English. There were several corrections in the second stage based on the comments given before finalizing it. Since the first language of the potential respondents is Malay, the final version of the questionnaire was then translated into Malay. The translation was done by referring to the work of Siraj (2004) and discussing with Malay and English language teachers, as well as an accounting teacher for the accounting terms. The Malay version of questionnaire was then "back translated" to English in order to ensure the meaning of each question had not deviated from the original version.

A pilot test, to assess the clarity of the questions, was then undertaken using both the English and Malay versions of the questionnaire. Fourteen sets of questionnaires, comprising seven sets of the Malay version and seven sets of the English version were distributed to six treasurers and one chairman of *qaryah* mosques in Selangor. They were given a choice as to whether to answer the questionnaire in English or Malay. The purpose of sending both versions was to detect which language they preferred. Based on the pilot test, minor amendments were made which included eliminating, rephrasing and inserting questions that were relevant to the research.

Data Analysis

Data obtained from the questionnaires were analyzed using SPSS statistics. Before they were keyed into the SPSS, the data underwent an editing and coding process. In the editing process, the returned questionnaires were examined for incompleteness and inconsistencies. Then, the following step was to

code the responses. As most of the questions were closed questions, it was easy to do the coding process. For open-ended questions, the responses were compared and the common points were identified so that they were also easily encoded. The data were analyzed and interpreted by using a descriptive analyses technique.

Analysis and Findings

Demographic Profile

Of the 76 questionnaires distributed, 39 mosques responded, giving a response rate of 51.3 percent. Although there is no specific standard on the acceptable rate of response for surveys, a response rate that is above 50 percent may well be adequate, particularly in Malaysia. This is supported by Sekaran (2003) who believes that a 30 percent response rate for mailed surveys is considered acceptable. Most of the respondents were aged between 51 and 60 years old (50%), followed by those between the ages of 41-50 years (28.9%). This comes as no surprise since the majority of people who go to the mosques consist of the elderly. This is supported by several respondents during the interviews, who indicated that it is the elderly that go to the mosques most regularly. The possible reasons for this are the fact that the mosque itself is usually not friendly to young people and added to this is the fact that the elderly are already retired and thus have more time to focus on religious matters. Or, perhaps, the elderly are generally more inclined to go to the mosque because they realize that death may be at their door. Only 2.6 percent of respondents were below 30 years old. We also found a large number of volunteers in our study. Similar findings were evident in studies by Duncan et al. (1999),

Wooten et al. (2003), Bowrin (2004) and Irvine (2005). This is because nonprofit organizations tend to be heavily dependent on volunteers.

The majority of the respondents were holding the position of “secretary” followed by “treasurer” and “chairman.” Even though this study is concerned with the financial aspects of management and thus the relevant respondent should have been the treasurer, given the significant contributions of the secretary and the chairman towards the financial management of *qaryah* mosques, respondents holding such positions would also be deemed appropriate. Thus, one can observe that the accounting and financial management practices of *qaryah* mosques are not the sole responsibility of the treasurer alone - other committee members are also actively involved. As such, having a large percentage of respondents indicating that they are the secretary of the mosque may not impair the results in this study.

Due to the high involvement of volunteers and an improper segregation of duties between the committee members, it was to be expected that only 26.3 percent of the respondents claimed that their treasurer possessed qualification in accounting. However, the majority of them do not possess a tertiary level accounting qualification. The results appear to support prior research (Duncan et al. 1999; Duncan and Flesher 2002; Parker 2002; Wooten et al. 2003; Elson et al. 2007; Ventura and Daniel 2010; Enofe and Amaria 2011). This is somewhat worrying. In fact, during the interview sessions, they admitted that they have no accounting background, and, furthermore, some of them did not have any financial management training, as conducted by the State Islamic Religious Council and Terengganu Islamic Religious Department (IRD). Usually, one of the reasons why

the committee refuses to join the training is because they feel that it is not really important and if they are forced by other committee members to go, they might think that the people do not trust them. However, the interviews conducted with the IRD revealed that, due to the shortage of staff in the IRD, the management training for the committees of *qaryah* mosques has not been conducted recently. Therefore, the committees, especially the treasurer may not have sufficient knowledge in administering the mosques. More importantly, the level of education of

mosque committees might have an impact on the efficiency of the management of mosques (Ahmad et al. 2001). In the context of financial management, a treasurer with an accounting background is better able to manage the finances of the mosque more efficiently. Table 1 summarizes the results of the demographic information.

With regard to the source of funds, Table 2 shows that 48.71 percent of the respondents agree that the sources of funds for their mosques came from public donations, which is consistent with prior studies

Table 1. Demographic Information

<i>Panel A: Age of respondents</i>			
No.	Age	No. of respondents	Percentage
1.	below 30 years	1	2.6
2.	30-40 years	2	5.3
3.	41-50 years	11	28.9
4.	51-60 years	19	50.0
5.	61-70 years	3	7.9
6.	71 and above	2	5.3
<i>Panel B: Employment status in the mosque</i>			
1.	full time	2	5.1
2.	part time	1	2.6
3.	volunteer	36	92.3
<i>Panel C: Current position of the respondents</i>			
1.	Chairman	3	7.7
2.	Secretary	27	69.2
3.	Treasurer	8	20.5
<i>Panel D: Accounting qualification of treasurer</i>			
1.	Professional	1	2.6
2.	Diploma	2	5.1
3.	SPM	6	15.4
4.	Course and training in accounting	3	7.7

Table 2. Source of Funds

No.	Source	No. of respondents	Percentage
1.	Allocation from State Religious Department and Contribution from public/local communities	13	33.33
2.	Allocation from State Religious Department and Contribution from public/local communities and Endowment (waqf)	2	5.13
3.	Contributions from public/local communities only	19	48.71
4.	Contributions from public/local communities and Endowment (waqf)	3	7.69
5.	Contributions from public/local communities and Endowment (waqf) and rental	1	2.56
6.	Contributions from public/local communities and rental	1	2.56

(Laughlin 1988; Ahmad et al. 2001; Wooten et al. 2003; Elson et al. 2007; Woodbine 1997; Jayasinghe and Soobaroyen 2009; Afifuddin and Siti Nabiha 2010). Consequently, this requires great financial control and accountability, as it involves managing public monies. Additionally, about 33 percent claimed that they receive income for the mosque from both the State Religious Department and public donations. As stated earlier, the sources of funds of mosques in Terengganu are heavily dependent on public donations. The Terengganu State Religious Department does not provide a monthly allocation to the mosques. However, the department will assist the management in providing funds for repairing and upgrading the mosques based on their requests. The committee for the mosque has to complete and submit the relevant form and the Terengganu Islamic Religious Department will appoint a person to examine the mosque and estimate

the cost of repairing the building. Perhaps, that is why some of the respondents agree that their sources of funds come from a combination of an allocation from the State Religious Department and contributions from the public, even though they do not receive the funds from the State Religious Department regularly.

Measurement of Financial Management Practices

With reference to the research questions, this study not only investigates the financial disclosures and budgetary practices of the mosques, it also examines the strength of their practices. In determining the strength of the practices, the method used by Siraj (2004) has been adopted. Essentially, this method compares the number of control procedures implemented by individual *qaryah* mosques by calculating the average (AVE) using the following Formula 1.

Formula 1. Average of Accounting Practices in Individual Qaryah Mosques

$$AVE: \frac{\text{Summation of scores of control procedures for particular accounting practices implemented in each of the } qaryah \text{ mosques}}{\text{Total number of control procedures for a particular accounting practice}} \times 100$$

Source: Siraj (2004)

The financial control system is said to be stronger if the number of control procedures implemented in a particular *qaryah* mosque is high, that is more than 60 percent. Finally, the overall implemented controls are evaluated using the average method (AVE-I) for all mosques. The average (AVE-I) helps to provide information concerning the general strength of a particular accounting practice in all *qaryah* mosques. The AVE-I is calculated using the following formula in Formula 2.

Formula 2. Average of Accounting Practices in Individual Qaryah Mosques

$$AVE-I: \frac{\text{Summation of scores of control procedures for particular accounting practices implemented in each of the } qaryah \text{ mosques}}{\text{Number of } qaryah \text{ mosques} \times \text{Total number of control procedures for a particular accounting practice}} \times 100$$

Source: Siraj (2004)

Table 3. Classification of the Strength of the Internal Control System in Qaryah Mosques

No	Scales for AVE-I (% of AVE-I)	The Strength of Control System
1	0-24.9	Very Weak
2	25.0-49.9	Weak
3	50.0-59.9	Fair
4	60.0-84.9	Strong
5	85.0 and above	Very Strong

Source: Siraj (2004)

Siraj (2004) also developed a ranking scale to evaluate the strength of the financial management practices in state mosques, which has been adopted in the current study. The scales rank the financial management practice from “very weak” to “very strong” as in Table 3.

Overall, this study found that *qaryah* mosques in Kuala Terengganu do have financial reporting and budgetary practices. However, they have satisfactory (fair) control systems in financial accounting and reporting, but are weak in budgetary control systems. This actually answers our research questions highlighted in this study, where it has proven the existence of financial accounting and budgeting methods in *qaryah* mosques. Since this study extends the work of Siraj (2004), the results will be discussed in light of her study.

Financial Accounting and Reporting

This section will answer the research Question 1 and 2:

RQ 1: Do mosques in Kuala Terengganu prepare accounts and disclosed it to the qaryah members?

RQ 2: What is the extent of disclosure practices by qaryah mosques?

As mentioned in the previous section, qaryah mosques do prepare accounts and disclose them to the qaryah members, which provides the answer to research Question 1. In

answering research Question 2, our results revealed a “satisfactory” (fair) control in terms of disclosure practices. The results obtained here is slightly different from that of Siraj (2004) where she found state mosques had a less than satisfactory use for their reporting system. Table 4 summarizes the findings. It was found that 97.4 percent of the respondents prepared financial reports for their mosques and that most of them have income and expenditure as one of the items in the financial report. This is followed by receipts and payments, the cash flow and balance sheet. Perhaps, this is due to the nature of transactions that occurs most frequently in the mosques. Based on the informal inter-

Table 4. Results of Financial Reporting Practice

Panel A: Reporting System			
No.	Control	No. of Qaryah Mosques Implementing the Control (YES)	Percentage
1.	Does the mosque prepare any financial report?	38	97.4
2.	Are the financial reports being audited?	18	50.0
3.	Are the financial reports distributed to the qaryah members?	9	24.3
4.	Are the financial reports made available to the qaryah members (e.g.: displayed on the mosque’s notice board or mosque’s website)?	30	81.1
5.	Does the mosque prepare an annual report?	22	59.5

Panel B: Type of Financial Statement			
No.	Type of Financial Statement	No. of respondents	Percentage
1.	Balance Sheet	10	25.64
2.	Income and Expenditure	23	58.97
3.	Cash Flow	13	33.33
4.	Receipts and Payments	16	41.03

Table 4 (Continued)

Panel C: Procedures and Manual Used in Preparing the Accounts

No.	Control	No. of <i>Qaryah</i> Mosques Implementing the Control (YES)	Percentage
1.	Does the mosque have any written financial policy or procedures?	22	56.4
2.	Are the written financial policy/procedures made available to all mosque committee members and administrative staff?	25	67.6

Panel D: Reference Used to Prepare Financial Report

No.	Reference	No. of respondents	Percentage
1.	FRS	3	8.1%
2.	Financial guideline issued by SIRC	25	67.6%
3.	No standard	9	24.3%

views, the transactions usually involve receipts of money and the disbursements generally relate to the payment of utilities. Accordingly, only the income and expenditure statement is prepared.

According to Malagueno et al. (2010), and Enofe and Amaria (2011), good financial record keeping, an annual audit and communication of the financial information to members are three elements that help organizations to be transparent and prevent corruption. In the case of the *qaryah* mosques examined here, 50 percent of the total respondents claimed that their financial reports were audited by a financial examiner. Although the existence of a financial examiner is required by the Administration of Muslim Law (Terengganu) Enactment 2001, results revealed that the financial examiners do not play their roles well. With regard to the disseminating of the financial report, Panel A of Table 4 shows only 24.3 percent of the

respondents distributed the report to *qaryah* members. However, 81.1 percent made the financial report available to the *qaryah* members by displaying it on the notice board or website of the mosque. The results indicate that the majority of *qaryah* mosques in Kuala Terengganu do disclose their financial information and are transparent to the public. This is indeed commendable. It is such practices that may help the management to prevent embezzlement from happening in the mosques.

Despite having a majority of respondents preparing the financial report, only 59.5 percent prepare the annual report. The difference between the financial report and the annual report stems from the purpose they serve. The financial report, as the name suggests, provides financial information and presents it in terms of numbers and figures, whereas the annual report has a broader scope and provides more information than just num-

bers. The annual report includes future plans and strategies of the organization, and a summary of activities apart from the financial statements. Thus, for small organizations like *qaryah* mosques where not much activity is conducted, it is possible to have fewer respondents who prepare an annual report because, to them, the financial report is enough to inform the *qaryah* members of how the mosque manages the funds given by the public. In addition, even though accounting is required in the Administration of Muslim Law (Terengganu) Enactment 2001, there is a lack of enforcement of this. As a result, some of the committees of the *qaryah* mosques are not aware of the requirements and use the previous accounting practice as a reference instead of using the financial guidelines issued by the enactment.

With regard to the procedural manuals, Table 4 shows that even though 56.4 percent stated that they have a financial policy and procedures, it is surprising to note that 67.6 percent claimed they made a written manual and procedures available to the committee members of *qaryah* mosques. This result highlights the disadvantage of using a mail questionnaire, as the interviewer's absence can lead to a misunderstanding of the questions by the respondents, and, hence, they use their own interpretation, which may not be quite correct (Pandiyana and Chandran 2011). In this case, since 56.4 percent have a written financial policy or procedures, the percentage of respondents making the procedures available (question 2) is supposed to be the same or lower than the percentage in question 1. Thus, to overcome this problem, interviews were conducted to gain more information regarding the financial manual or procedures.

Based on the interviews conducted, there is a lack of enforcement concerning the

accounting practices of *qaryah* mosques. Consequently, the committees of the *qaryah* mosques use various formats of accounting practice grounded on their prior practices. It is also surprising to note that some of them are still confused concerning the format used and do not know what type of accounting record they should prepare. In line with this, the respondents were asked in the questionnaire about the reference they used to prepare the financial reports.

As presented in Table 4, 67.6 percent of the respondents use the financial guidelines issued by the State Islamic Religious Council (SIRC) and 24.3 percent prepared the financial report without any financial standards or procedures as a guideline. This confirms with what Boyce (1984) (as reported in Woodbine 1997) identified, in that much of the knowledge regarding accounting practices in religious organizations is acquired and transferred by oral processes. More importantly, the lack of enforcement concerning the usage of the financial guidelines issued by the SIRC will contribute to the variations in the accounting practice of *qaryah* mosques in Kuala Terengganu.

Based on the overall results, *qaryah* mosques still need some improvements in the areas of accounting practices and financial reporting in order to ensure better financial management.

Budgetary Controls

This section will discuss the answers for research Questions 3 and 4.

RQ 3: Do mosques in Kuala Terengganu prepare budgets?

RQ 4: What is the extent of budgetary practices by qaryah mosques?

Qaryah mosques in Kuala Terengganu do apply budgetary practices. However, the lower percentage of controls implemented in their budgeting practices resulted in weak scores of AVE-I, which indicates weak control of the practices among them. As presented in Table 5, only 27.8 percent of the respondents prepared a budget for annual expenditure. This result is consistent with the study of Parker (2002) who found loosely coupled budgetary control systems in churches in Australia. In contrast to this result, adequate control over budgetary practices in mosques was evidenced by Siraj (2004). This is expected since the state mosques, being larger in size, have proper management as compared to the *qaryah* mosques. Nevertheless, the result of this study points to the disadvantage of a questionnaire survey in as much as the findings for Questions 2, 4, 5, 7 and 8 are supposed to be the same or lower than the findings for Question 1, which is 27.8 percent (as the questions are meant for those who prepare the budget).

Although budgetary control is found to be weak from the survey, data from the interviews revealed that some of the *qaryah* mosques do actually prepare a simple budget. According to them the negative answer is because they have assumed that the question refers to a formal budget, as in government organizations and big companies. Additionally, they said that budgets are generally prepared for each activity which the mosque conducts that involves monies. However, some of the *qaryah* mosques do not really prepare a budget because, in their opinion, *qaryah* mosques are only involved in basic and regular financial transactions, like paying utility bills. Accordingly, they thought there was no need to prepare a budget. This is consistent with the results of the study

conducted by Jayasinghe and Soobaroyen (2009). In that study they found that there was very little formal planning and budgeting involved within the Hindu temples and the treasurer informally prepares the budget more as a way to plan for significant cash payments rather than for approval or authorization. Budget practices are one of the important aspects of mosque management that should not be neglected, since it can help improve the financial management of the mosques. This is supported by Parker (2002) who suggests that even though budget practice is considered as “secular,” it actually provides a regular medium for the discussions that can strengthen the organization’s sacred agenda and the sustenance of its culture.

Conclusion

The study examined whether *qaryah* mosques in Kuala Terengganu have proper financial management (including reporting) and budgetary control system. This is in light of the fact that accounting is regarded as a tool that can aid the mosque management committees to discharge their duties with some accountability (Nahar and Yaacob 2011). The results revealed that *qaryah* mosques in Kuala Terengganu have indeed “satisfactory” control over financial accounting and reporting but the budgetary control is weak. What comes as a surprise is the fact that even though such mosques are required to have financial examiners examine their financial reports, a large number appear not to have their financial statements audited. Obviously, the financial examiner does not play an effective role, which may be due to the lack of enforcement. Most respondents also view accounting as an important tool in managing such organizations, that this accounting is a “welcome intrusion.” Thus, this seems

to support the contention that there is no division between the sacred and the secular in Islamic religious organizations. The findings here are consistent with those of Abdul Rahman (1998) and Sulaiman et al. (2008).

The results of this study should be interpreted in light of certain limitations. The first is the sample of 39 *qaryah* mosques. Although the number seems adequate if compared to other similar studies in Malaysia, this represents only 34.5 percent of the total number of *qaryah* mosques in Kuala Terengganu. Perhaps, non-respondents choose not to answer the questionnaire because they did not undertake any accounting of their funds. This is worrying since it exposes the organization to an element of distrust which will undermine the objective of the organization. The study also focused on one type of mosque in a specific location. Thus, future research could expand this study by including a larger sample size and to include the different types of mosques and from different states in Malaysia. Secondly, since this study used a questionnaire survey, it does not possess the flexibility for a more detailed analysis. Thus, future research may wish to use a purely qualitative research method to study this research stream in detail.

Notwithstanding the above limitations, the study makes a pertinent contribution in several respects. The study has several implications for stakeholders and researchers. The

results obtained here may provide an insight into the weaknesses as regards financial management of funds in mosques, and subsequently addressing the flaws so that this will benefit the stakeholders, especially donors, since their money will be managed and used properly. The findings also revealed a lack of enforcement on the failure of *qaryah* mosques to submit their accounts. Accordingly, it is in the interest of the stakeholders that the Terengganu Islamic Religious Council makes financial statements mandatory for every mosque and that the Terengganu Islamic Religious Department ensure that there is proper enforcement. In this, perhaps the Terengganu Islamic Religious Department can fully apply their 'e-collection' system. This might enable the treasurers of the mosques to report their financial statements and also assist Terengganu Islamic Religious Department in observing and obtaining the current information concerning the financial management of the mosques. Finally, it is good for the Terengganu Islamic Religious Council to publish financial guidelines on its website so that every mosque can refer to the same source. In this case, recognition should be given to the Islamic Religious Council of Singapore who created a very informative website in respect of Islamic affairs including mosque management. The website also provides mosque financial regulations as a reference. This might help increase the number of mosques preparing financial statements.

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