CONTENTS

Preface 1

SECTION ONE: INTRODUCTION

Chapter 1: ISSUES ON ZAKAT AND ITS POVERTY ALLEVIATION GOAL
Naziruddin Abdullah & Mohd Mahyudi Mohd Yusop 1

Chapter 2: FACTORS THAT MOTIVATE PAYMENTS OF ZAKAT ON INCOME AND INCOME TAX AMONG IIUM STAFF
Muhammad Ibrahim Abdullake, Mohd Mahyudi Mohd Yusop & Syezlin Hasan 8

SECTION TWO: MANAGEMENT OF ZAKAT INSTITUTIONS

Chapter 3: ASSESSMENT ON THE EFFICIENCY OF ZAKAT DISBURSEMENT IN MALAYSIAN ZAKAT INSTITUTIONS
Siti Normala Sheik Obid, Sheriliza Puat, Nelson & Nazifah 30

Chapter 4: FINANCIAL CONTROL PRACTICES OF ZAKAT INSTITUTIONS IN MALAYSIA
Muhammad Akhyar Adnan & Bashir Abdisamad Hareed 66

Chapter 5: PAKISTAN'S POVERTY-ZAKAT NEXUS: A MEASUREMENT USING ZAKAT EFFECTIVENESS INDEX
Naziruddin Abdullah, Mohd Mahyudi Mohd Yusop & Che Omar Hj. Awang 84

SECTION THREE: FULFILLMENT OF ZAKAT POLICIES TO ALLEVIATE POVERTY
Chapter 6:
ZAKAT DISTRIBUTION IN THE ECONOMIC DEVELOPMENT PROGRAMME: A CASE STUDY OF SELANGOR
Husna Jamaludin, Nabila Ahmad, Sharifah Nabilah Syed Salleh & Naziruddin Abdullah

101

Chapter 7:
ZAKAT RECIPIENTS’ SATISFACTION ON HOUSING PROGRAMME
Mohammad Abdul Mohit & Nurul Nazyddah

118

Chapter 8:
ZAKAT AS A FINANCIAL CATALYST FOR MICRO AND SMALL BUSINESSES IN MALAYSIA
Zuhairah Ariff Ab Ghadas & Mohd Fahme Hasnor

140

Chapter 9:
ZAKAT AS A SOURCE FOR MICROFINANCING
Norina Md Saad & Jarita Duusa

149

Chapter 10:
ANALYSIS OF ZAKAT DISTRIBUTION IMPACT TOWARDS REDUCTION OF POVERTY AND INCOME INEQUALITY
Syah Syaugi Btek & Tiara Tsani

164

List of Contributors

181

Index

183
CHAPTER FOUR
FINANCIAL CONTROL PRACTICES OF ZAKAT INSTITUTIONS IN MALAYSIA
Muhammad Akhyar ibn Daud
Bashir Abidin Hameed

INTRODUCTION
In the last two decades, financial scandals and mismanagement of religious organizations resources have plagued the western arena. Complaints from the churches have increased and the reputation of the religious centers has decreased (Edwards, 1990). These mentioned circumstances have raised the concern of the financial control management of religious organizations as well as attracting the attention of researchers to conduct studies in the Western religious organizations (Wooten et al., 2003).

In the case of Islamic religious organization, much is not known about its financial performance. Even though there have not been any reports of financial scandals in Islamic religious organizations, nowadays there has been an increasing concern of whether these organizations are experiencing similar deficiencies as other religious institutions in the West (Malish Suhaizan, 2007). Although there are quite a number of studies in the areas of Islamic religious organizations, they mainly emphasised on the general administration and performance measurement of Islamic religious organizations such as waqf and zakat institutions (for example: Bukar, 1998; and Abdal Rahaman et al., 1998).

In Malaysia, zakat institution is a division of the State Islamic Religious Council (SIRIC), and it is described as a societal institution that is perceived as a publicly-owned institution. It is established to handle and manage zakat funds, collections and disbursements (Bukar, 1998). It falls under the SIRC, which is assigned to administer all religious affairs in Malaysia. In spite of the importance of zakat in the Muslim society, there are very few studies about zakat administration. For instance, Osman and A. Hamid, (n.d.), Jamal bulls, and Nazliah Mustapha (2007) observe the inefficiency of management system and performance level of zakat institutions in Malaysia; this has been attributed to the shortage of experts.

Even though the available literature in zakat institutions did not give such considerations to the area of financial control of zakat institution, the current available literature shows that zakat institutions do not display sound financial management practices (Abdul Latif, 1998, and Osman and A. Hamid, n.d.). This scenario can create dissatisfaction among the society with regard to zakat institutions’ ability to meet with the religious and social needs of the Muslim community (Osman and A. Hamid, n.d.).

However, the majority of the literatures, whether in western or Islamic religious organizations, showed poor general administration of funds, inadequacy of sound financial practice, lack of accountability, inappropriateness of accounting systems and poor financial control, and finally, insufficient financial disclosure and reporting. Therefore, this chapter may be the starting point in this area. As a result, the researcher is motivated to explore the financial control practices in the organizational context of zakat institutions in SIRIC in Malaysia with special focus on the four financial control procedures of: a) Control over environment, b) Control over receipts, c) Control over disbursements, and d) Financial reporting.

It is expected that a thorough analysis of the results will provide a better understanding of the state of financial control practices of zakat institution. From the analyses of the results, it is hoped that the findings of the study will serve as a model for zakat institutions in the Muslim world.

FINANCIAL MANAGEMENT IN NONPROFIT RELIGIOUS ORGANISATIONS
Religious institutions have the same nature and characteristics with other non-profit organizations (NPOs). The core objective of NPOs is to become service oriented, by maximising the quantity or quality of the services provided to a given type of customers (Baraldi, 1998). The tasks of NPOs include promotion of educational attainment, charitable, health and social welfare activities to society at large (Anthony and Young, 2003). Apart from the aforesaid characteristics, religious nonprofit organisations are striving as well as to sponsor the improvement of religious and spiritual well-being of the society (Hall, 2002). In addition, one of the significant characteristics of NPOs is that it heavily depends on volunteer management and support from people who are interested in the mission of the organization. This may not motivate religious organizations to employ professionals and experts who may demand a higher remuneration which the organisation is not accustomed to offer due to insufficient financial resources.

Generally, financial management for business organisations involves planning the ways to obtain resources and to use them effectively. This is to the fullest interest of the organisations (Miller, 1994), but financial management for nonprofit organisations, including religious institutions, is more concerned about the well-being of the society rather than profit maximisation, the strategy of financial resources in nonprofit organisations, is the techniques that can improve its fundraising mechanisms and the proper applications of the funds. As Miller (1994) and Barata and Cai (2000) observe that financial management of nonprofit organisation is the process wherein the organisation, (1) employs the means to obtain and allocate resources and/or money, based on implied or articulated priorities, (2) utilises methods and control that ensure the full achievement of its objective by serving the public effectively.

The success of nonprofit organisations mainly is measured by its contribution to the public. It strives for the benefits of the society. Therefore, the management of the financial resources of this type of institutions is a very challenging one, which demands a higher accountability to effectively manage the available limited public resources. Herlinger and Nettishouse (1994) declare that financial management and control of nonprofit organisations entail an extraordinary demand to maintain financial and organisational stability and growth for the sake of social welfare.
boundaries of the moral and legal framework of the society, and to provide
an account of its actions to accountees who are not only the person who
provide it with its financial resources, but to groups, within society and to
society at large.

Although this definition is quite long, it encompasses all aspects of governance and
operations of different types of institutions, be it public or private.

According to this definition, and with the contemporary understanding model,
accountability represents an agreement which authorises the carrying out of an activity,
where the agent will be responsible for any action taken or refrained from by him and
accountable to any one whom is influenced by that action or in action, directly or
indirectly. Eriksen (2002) asserts that accountability would be a quality or state of an
object, necessitating an outside voice to do the actual accounting.

Due to the differences in the ideological and philosophical concepts and values
between western and Muslim societies, the meanings and practices of accountability
should be different. Since the values and norms of the world differ from society to
society, problems that usually arise are who determines or defines whether the actions
undertaken by the agent, individual or organisation, is right or wrong, or whether the
policies applied by the agent conforms with the interests of the public as a whole or of
only the principal.

In the Holy Qur'an, the word hizabah is used frequently in many verses (Lewis,
2006). The word hizabah means an account which is the root of accountability to Allah
SWT and it demonstrates one's accountability to Allah SWT in all matters pertaining
human worldly life and hereafter. It is mentioned in the Qur'an (Al-Ikhlas: 36), that Allah
SWT will surely question the hearing, sight and heart of every person of any action or
statement performed through those organs. This means that man is responsible and will
be accounted for those responsibilities before Allah SWT and to the other creatures as
well. Hizabah denotes that humankind is agent and has to bear the responsibilities as
khalifah. Allah SWT has made all the resources available for human beings and entrusted
these resources upon them, and they shall be examined whether they have performed
according to the guidelines of Allah SWT or not. Their success in the hereafter depends
on their performance in this world. Thus, the instructions of the Qur'an and the teaching
of the Prophet SAW represent the foundation of the Muslim values and norms of wealth
management and financial accountability of Muslim individuals. This is what makes
Muslim values and norms different from the Western values and norms, which in turn
affects the social and economical behaviour of the different societies.

Shahul (2000) raises the problems of the conventional and secular-viewed
definitions of accountability, which does not consider the implications of his various
societal values which describe the contractual responsibilities of both principal and the
agent. Therefore, the definition given by Shahul (2000) seemed to be comprehensive
and inclusively gave a wider picture about how principal-agent contract works in theIslamic
system.

Shahul (2000) affirms that since values and norms of Muslim Societies are derived
from their divine revelation, therefore the contents and connotations of accountability
should be in line with the objectives of Islamic Shari'ah. The interpretation of
Administration of zakat collections

As far as zakat management is concerned, the collection task is the most important duty of the zakat institution because disbursement depends on what is collected. During the early time of Islam, the Prophet (pbuh) ordered Mu’adz bin Jabal r.a. to collect zakat from the rich and to distribute it among the needy and destitute. Zakat collection and fair distribution among its beneficiaries were the concern of the Prophet (pbuh) during his lifetime.

Although the zakat institution is considered a religious body, naturally it has an economical and a communal character, where its management must be the responsibility of the state or government because the Prophet (pbuh) himself used to appoint zakat collectors (Mohd Daud, 1998) and sometimes involved himself (pbuh) in distributing directly to the poor.

In Malaysia, a majority of the zakat institutions is constitutionally separated and handled by the Islamic religious council of each state. The religious body that administers zakat collection and disbursement differs from one state to another. For example, in Melaka, the administration of zakat affairs is handled by a board known as Lembaga Urusan Wakaf, Zakat dan Insuransu (LUKMAL), while in the Federal States, zakat is handled by the government officers through Islamic department or Jabatan Aguam Islam Wilayah Persekutuan (JAWI) (Mohd Daud, 1998) and Nazifah Mustapha, 2007).

Zakat collection mechanisms

These are techniques employed for zakat collection efficiency. According to the collection mechanisms, zakat collection system in Malaysia has made a wonderful improvement compared to the other Muslim countries (Omar and A.Hani, n.d.). One of the remarkable methods of zakat collection is that, in some states, the city of zakat collectors was corporatised by setting up a separate body that administers all matters pertaining to the administration of zakat collection (Abdul Latif, 1998). To enhance the efficiency of the zakat collection system, the SIRC in the Wilayah Persekutuan (Federal Territory) took the initiative to corporatise and establish the first zakat collection centre which is known as PPZ – Pusat Pungutan Zakat in 1991 (Nazifah Mustapha, 2007). This step has improved the effectiveness of the administration of zakat institution in the Wilayah Persekutuan (Abdul Latif, 1998). The establishment of the corporatised collection centre (PEZ) in Wilayah Persekutuan was followed by some other SIRCs. The SIRCs institutions in Selangor (in 1994), Pulau Pinang (in 1994), Pahang (in 1996), Melaka (in 1996), and Negeri Sembilan (in 1996), (Qasid, 2000, Mahmud, 2001, cited by Nazifah Mustapha, 2007) confirm the establishment of corporatised collection centers. This step was intended to improve the collection of zakat funds and to develop the ways zakat payers can easily transfer their financial obligations. On the other hand, the responsibility of the zakat collection centres in the states of Selangor and Pulau Pinang have been extended to include distribution tasks, where the centers have authority to practice both collection and distribution (Nazifah Mustapha, 2007).

As mentioned earlier, the concept of corporatisation of zakat institutions is to enhance the efficiency of the collection system. As Ghani Md et al. (2001) assert that after the corporatisation of collection, there was a general trend of increase in collection in the majority of states. Although the study pointed out that the increase of collection
may be attributable to other factors, corporatisation is the major factor that affected collection significantly.

Other instruments developed for effective zakat collection
Additionally, zakat institutions have developed other instruments for handling zakat funds in both collection and disbursement. Apart from the corporatisation and collection bodies which are given the authority to collect funds from the payers and transfer to the accounts of zakat institutions, there are several other supporting bodies which, through deductions from salaries, provide support to the collection of zakat. Such bodies include the Income Tax department, universities, and higher learning institutions. They all play an essential role in facilitating collection procedures and simplifying the payments of financial obligations for any zakat payer.

On top of this, collection centres have been established in various locations, facilitating the collection of zakat. Because of the development of mechanisms and administration systems, there has been a remarkable improvement in the collection of zakat funds. The improvement was achieved through the efforts of the collection centres and the support of the centres.

Administration of zakat disbursements
The main purpose of zakat is the reduction of poverty line and the hardship among mankind through wealth redistribution. Disbursement or zakat distribution is the mechanism to achieve that goal. The distribution of zakat proceeds and its beneficiaries are clearly specified in the Qur'an (Al-Tawbah: 60) where the Qur'an does not leave this task to human judgment (Kahf, 1990). The categories that deserve zakat proceeds are only those defined in this verse in which Allah (SWT) instructs (meaning):

- Allah is for the poor and needy; they are employed to administer the zakat funds; for those whose hearts have been (recently) reconciled, to the truth; for those in bondage and in debt; in the cause of Allah; and for the wayfarer (thus is it) ordained by Allah and Allah is full of knowledge and wisdom (Al-Tawbah: 60).

These categories have the right to receive zakat proceeds in an equal portion of the total zakat collected. Regarding the issue of distribution, however, Islamic scholars disagree on whether zakat proceeds are to be distributed immediately or not. As Al-Qardawi (1999) discusses, the Hanafi point of view agrees with the immediate payment of zakat proceeds, otherwise zakat loses its objective to relieve the poor and needy. But as various studies revealed, some religious institutions do not consider the concept of immediate disbursement of zakat funds and this will be discussed later in this section.

Models of zakat disbursement
According to Kahf (1990) there are two models of zakat disbursement, these are (i) disbursement through state public budget, and (ii) disbursement through specialised zakat organisations.

Disbursement of zakat through state public budget
The first approach is zakat disbursement through state public budget. It is an approach based on the budgeted items, and with emphasis on the beneficiaries' needs, the government specifies the total zakat proceeds and the expenditures used for the collection, assigns an institution to undertake zakat disbursement in accordance with the Islamic Shari'ah and administrative principles. This approach has already been applied and implemented in Saudi Arabia and Yemen (Kahf, 1990).

Disbursement of zakat through zakat institutions
The second approach, which is through direct disbursement is, where zakat collections are not included in the state public budget. Therefore, disbursement is managed separately through specific institutions and, thus, the zakat institution (Kahf, 1990). This approach is practiced in Malaysia, Pakistan, and Sudan. On the other hand, zakat institutions may disburse zakat proceeds through (i) direct disbursement by the zakat institution itself, (ii) disbursement by zakat local committees, (iii) disbursement through governmental authority, and (iv) disbursement through intermediary institution (Kahf, 1990).

Further to the above, zakat can be disbursed through direct or indirect means (Kahf, 1990). The direct distribution of zakat refers to the disbursement of zakat funds to the identified beneficiaries in terms of cash, check or material (Nazifah Mustapha, 2007) while through the indirect distribution, zakat funds are disbursed to recipients through projects or programs which can provide long term benefits to them.

In Malaysia, zakat disbursement is some states is performed through the same zakat institution that performs collections, while in other states, collection is corporatised and managed by private or public organisations (Nazifah Mustapha, 2007). For example, in Wilayah Persekutuan, Pusat Pungutan Zakat (collection center) is only responsible for the collection task, while disbursement is assigned to Baitul Mal Wilayah which is a public institution (Mohamed Dahan, 1998, as cited by Nazifah Mustapha, 2007). Similarly, zakat disbursement responsibility is corporatised in the states of Pahang, Selangor, Pulau Pinang, Negeri Sembilan and Melaka. Although there are still some shortcomings in the disbursements of zakat proceeds in some states, as Nazifah Mustapha (2007) points out, the agencies have improved generally after the corporatisation of disbursement by zakat institutions which have been corporatised. However, not all zakat proceeds are disbursed at times. A rational mind may want to know the reason for this retention action.

Retention of zakat proceeds
This implies that not all funds that are generated through zakat are disbursed, certain percentage are disbursed while the remaining percentage of zakat proceeds are kept aside and not for distribution.

In a study about zakat performance in Malaysian zakat institutions, Nazifah Mustapha (2007) shows that zakat institutions retained zakat proceeds and do not
distribute them at the appropriate time. For example, in Kedah around 31 percent to 43 percent of the zakat funds were retained from the year 1994 to 1996. Similar scenarios have been found in the state of Pahang where only 71 percent and 68 percent of the zakat funds collected in the years 1998 and 1999 respectively have been distributed (Nazifiah Mustapha, 2007). This view is supported by Oumer and A. Hamid’s (n.d.) findings which noted that only 60 percent to 80 percent of zakat funds collected is usually disbursed, while the balance is deposited to the zakat saving funds for future use.

FINANCIAL CONTROL AND ACCOUNTING PRACTICES

There are very few studies in the areas of accounting and financial management in zakat institutions. In fact a very unique study, though very old, was carried out by Muhammad Akram Khan (1990) who compares and evaluates Sharī'ah, administrative and financial controls of zakat systems in Pakistan and Kuwait. The study was an exploratory one; he attempted to identify those areas aforementioned as being practiced by the two institutions. Khan (1990) justifies his selection of these two countries on the premise of their similarities in zakat practices which allowed him to learn from each other. In the area of financial control, Khan (1990) reports that regulations regarding zakat funds custody, accounting, auditing, and precautions against errors, omissions, frauds and misappropriations are fairly similar in the two systems. In his conclusion, Khan mentioned that there was no control on the idle funds, and although in the financial regulations the audit report was compulsory, at that time no single audit report was prepared by the zakat system in Pakistan. In Kuwait, the situation was fairly encouraging, as Khan (1990) indicated; the financial control over resources in Kuwait was rather satisfactory.

In Malaysia, a study conducted by Abdul Rahman and Goddard (2003) on accounting practices in the religious organisations in Malaysia, including zakat, have expressed that besides the usage of financial regulations and performance measurements, financial control is exercised through budgeting practices. The authors said that SIRC uses accounting and reporting processes for better decision making. But they concluded that even though SIRC was implementing budgeting for planning, it was characterised by routine practices. The study covered only two state religious organisations. Assessing the financial reporting system, the authors found that one of the religious organisations (ASRC) had not produced financial reports regularly hence no up-to-date as such sound financial record was found on the other hand, the other organisations (BSRC) have a little organised financial information, but produced financial statements regularly (Abdul Rahman and Goddard, 2003).

With regards to accounting practices, the authors found in their study that accounting was marginalised and had extremely limited functions. As Abdul Rahman & Goddard (2003) prove that, accounting practices are considered as a mere recording tool to keep financial transactions. In an ASRC organisation, the role of the accountant was not important and he had no involvement with the decision-making procedures, on the contrary in a BSRC organisation, the accountant seemed to be more important, but still had limited influence in the decision-making procedures (Abdul Rahman and Goddard, 2003). In their discussion, Abdul Rahman and Goddard (2003) point out that accounting is not considered as a secular instrument, but seemed to be a supporting tool and technique for performing core religious organisational activities.

Assessing on whether the concept of sacred-secular divide exists in the Islamic religious organisations in Malaysia, Abdul Rahman and Goddard’s (1998) disagree with the assumption and asserts that accounting is perceived as an important tool for the Islamic religious organisations. This is contrary to the general findings in the Western religious organisations which consider accounting as irrelevant secular values.

Generally, in the literature of zakat administration in Malaysian zakat institutions, there are some improvements in the management of zakat collection and disbursement. In some states, collection is assigned either for specialised centre or corporatized. Unfortunately, there is not enough information about the financial control and accounting practices in the Malaysian zakat institutions.

To the knowledge of the researchers, there are no such mentionable studies on financial management practices of zakat institutions, in terms of financial control procedures, accounting techniques and financial reporting implemented by the zakat institutions, neither in Malaysia nor even in the rest of the other Muslim countries, except one very old study by Akram Khan (1990) on the sharī'ah, administrative and financial control of zakat systems in Pakistan and Kuwait as mentioned earlier. As a result, since there is no financial control model for Islamic religious institutions, the study adopts a framework developed by Woon et al. (2003) as model to explore the status of financial control practices of Islamic religious Institutions. The authors called their financial control framework the matrix of control goals and financial duties. This framework comprises four control procedures, control environment, control of over receivables, control of over disbursements, and control of financial reports. The framework is considered as a good benchmark that can be used to assess the financial control practices of zakat institutions in Malaysia. There was a slight modification in the model to be appropriate for condition of zakat institutions.

RESEARCH METHOD

This study is an exploratory one; which aims to identify the relevant concepts about a phenomenon and to understand what is going on and occurring in a certain situation (Lightbody, 2000; Sekaran, 2003). An exploratory study is usually done to better comprehend the nature of a problem since very few studies might have been conducted in that area. Similarly, much is not known about the situation of financial control practices of zakat institutions in Malaysia. Therefore, this is an exploratory study which explores the status of financial control procedures over financial resources in zakat institutions in Malaysia. As described by Sekaran (2003), there are various methods of data collection that include interview – face-to-face, telephone interview and interview through electronic media; questionnaire that are either personally administered, sent through email, or electronically administered observations of individuals and other various techniques. Sekaran (2003) argues that although interviewing is more flexible in terms of changing, adapting and adapting of the questions, questionnaires have the advantage of obtaining data more efficiently in terms of researcher limited time, energy and cost. However, this study utilises questionnaire due to the considerations mentioned by Sekaran (2003),
specifically, the time span of the study, cost and the available resources for data collection.

There are four control procedures the research question emphasises on: (a) control environment, (b) control over collection, (c) control over disbursement, and (d) financial reporting of zakat institutions. To answer the first part of the research question, which is the existence of control environment procedures, the questionnaire contained 15 YES-NO questions. Similarly, since some of the financial control activities may frequently, but not continuously, be practiced by the zakat institutions, a 18 point-scale questions and eight (8) multiple choice questions have been developed to answer the questions about financial control procedures over receipts, disbursements and financial reporting of the zakat institutions. There is YES-NO, point-scale and multiple choice questions in every control procedure except control environment part. Thus, in one section, e.g., control over receipts, YES-NO, point-scale and multiple choice questions were used.

The target group of the study consists of the top management and finance staff of the zakat institutions. For the survey of managers and finance staff of zakat institutions in Malaysia, fourteen zakat institutions including the directors of each institution, deputy directors, deputy directors of collection and/or disbursement (applicable on the corporatised zakat institutions), financial officers or treasurers (some institutions have treasurers and not finance officers), internal auditors, and accountants. The reason behind selecting this sample is that: (1) as zakat institutions in Malaysia have many branches in the majority of districts in each state, it consumes a lot of time and efforts to survey all those branches, (2) the researcher assumed that since the headquarters of each institution represent the decision-making center and all reports are provided and forwarded to them from various branches, then all the relevant data may be obtained from the headquarters records, and (3) the staff in the headquarter may have better knowledge about all the financial information pertaining to zakat management, therefore, it was decided that data obtained from the headquarters will be quite enough to analyze the status of zakat institutions’ practices of certain financial control procedures.

Seventy-three questionnaire sets were posted to the respondents of the 14 zakat institutions in SIRCs in the 14 Malaysian States. A cover letter signed by the supervisor and the Head of Accounting Department and a self-addressed and stamped envelope were enclosed in each case to ensure respondents feedback. With the hope that the response rate would be high, one month was allocated for the receipt of the questionnaire sets. To remind them, the researchers called all respondents at least three times before the expected return date.

Out of the 73 questionnaires sent to the 14 zakat institutions, 41 questionnaires were returned from 10 zakat institutions, which represent a response rate of 56.2 percent of the respondents and 71.4 percent of the institutions. So, since the returned questionnaires were more than half and from the majority of the zakat institutions, the response rate were considered quite reasonable. This returned questionnaires were from the states of Kuala Lumpur, Selangor, Terengganu, Kedah, Negeri Sembilan, Perak, Pahang, Pinang Sarawak and Sabah. However, several attempts have been made to call and remind respondents, of the remaining four zakat institutions that are yet to comply.

To analyse the results, the researchers used the frequency of the respondents' answers in the financial control procedures by each institution and then calculated the percentage of the practices of certain procedures to compare with those who did not practice them. SPSS software, version 12.0, was used to tabulate the results. In addition, the demographic information of the respondents was also analysed through of descriptive statistics.

RESEARCH FINDINGS

As discussed earlier, four control procedures are covered by the research question. These are control environment, control over receipts, control over disbursement and financial reporting. Control environment practices explores whether zakat institutions assess five written control procedures, namely, financial policies and procedures, controlling/finance committee, annual budgeting, accounting systems and chart accounts and financial guidelines and/or standards. Control over receipts practices examines whether zakat institutions placed the control procedures of separation of duties pertaining to cash handling, cash depositing, cash recording, and bank reconciliation, on one hand, and pre-listing of zakat payers/donors, voucher system, and independent verifications of cash collection on the other hand. Control over disbursements practices examines whether zakat institutions put into practice the control procedures of cash payment through cheques, prompt cheques registration, petty cash vouchers, and independent verification of cash disbursement and monthly balancing of cash, on one hand, and over-budget disbursement approval and signatures and vouchers system on the other hand. Financial reporting attempts to identify the frequency of financial report preparation, financial report contents, auditing of financial reports, reviewing of financial reports, and reporting of budget variance. The results for each control procedure are discussed below in details.

Control environment practices

The results showed that out of the 10 zakat institutions, 7 have written financial policies and procedures, while the other three demonstrated lack of written policies and procedures for their financial activities. To know whether such written policies and procedures are available to all administration, only 6 zakat institutions mentioned that written financial policies and procedures are made available for staff members and other committees. Two zakat institutions said that they have written financial policies and procedures, but it is not given to all staff and other committees, while two zakat institutions did not give any information whether their written financial policies and procedures are disseminated among their staff and other committee members. It can be concluded that the majority of the zakat institutions in Malaysia have written financial policies and procedures, which represent the foundation of financial control procedures, but having written financial policies and procedures is not enough. There should be an enforcement of those policies and procedures. It would give awareness among administrative staff and all other involved committee members, of the importance of financial responsibilities; it empowers staff when they have a guide about their individual duties.

Out of the 10 zakat institutions surveyed, 8 institutions have a controlling or finance committee, while one institution reported the lack of such committee. Since the main job of the controlling/finance committee is to set the annual budgets and plans and then follow up of
the plans are being implemented, this study respondents were asked whether the zakat institution prepare annual budgets for their institutional activities. Out of the 10 zakat institutions, 7 of them prepare financial budgets annually, while three do not. As noted by Wooten et al. (2003), the controlling or finance committee is a necessary body for any nonprofit religious organisation as it is responsible for preparing proactive plans and supervises the implementation of those plans. The controlling or finance committee prepares annual budgets of the next period for the institutions’ activities. The committee is responsible to ensure that financial resources of the institutions are properly placed as well as to monitor how the institution spends its money.

One of the basic principles of financial control is the existence of recordkeeping for any institution, because without recordkeeping, the traceability of the financial transactions, in any institution, will be troublesome. Recordkeeping and having charts of accounts are considered an important part of management of the organisation in the area of planning and goal setting (Buraldi, 1998). Therefore, recordkeeping is one of the internal control procedures of financial resource management in any institution. Similarly, a chart of accounts guides the expenditures of the institution and assists control procedures.

The majority of the zakat institutions have a chart of accounts. Out of the 10 zakat institutions, 9 institutions have a chart of accounts. Similarly, all the zakat institutions that responded in the study have an accounting system. But the types of accounting system practiced by the institutions vary from one another. Six zakat institutions maintain both manual and computerised accounting system (combination), while three zakat institutions maintain only computerised accounting system, leaving only one institution that keeps a manual accounting system.

Financial guidelines and/or standards can help the institution to perform its activities in accordance with the standards and guidelines. According to the results, 8 zakat institutions practice a set of financial guidelines and standards, but the type of guidelines and standards are varied. Out of the 10 zakat institutions surveyed, five institutions mentioned that they follow the accounting guidelines set by the Malaysian Accounting Standards Board (MASB), while two institutions indicated that they do not follow any guidelines. In addition, some institutions follow the guidelines in parallel with their own internal guidelines. Zakat institutions in Kuala Lumpur, Kedah and Terengganu have their own guidelines called “Amalan Terbaik Pengurusan Kewangan Majlis Agama Islam” (the best financial management practices of Majlis Agama Islam). Similarly, zakat institutions in Negeri Sembilan follow the “tata cara kewangan syarikat” (the companies’ financial procedures). In conclusion, from the above discussion, the majority of the zakat institutions in State Islamic Religious Institution in Malaysia have an acceptable level of control environment practices.

Control over receipts practices
According to the control over receipts or collection, respondents were asked to answer five-point Likert-scale questions, which is 1 to 5. (1) Assigned to indicate “never” which means that the institution does not practice the respective control procedure, while (5) was assigned to indicate the full implementation of certain financial control procedures in the institution. (2) to (4) indicate varying degrees of intermediate implementation of the financial control procedures.

It is provided in Likert-scale format and to simplify the result scrutiny, scores of the mean are emphasised to analyse the results. According to the results, the mean score is above 3 points. The range of the mean is from 1 to 5; therefore, a score of 3 and above is considered quite strong evidence that good control procedures over receipts are practiced by zakat institutions in Malaysia. The highest score is 4.63, which explains that receipt vouchers are prepared as zakat amounts collected by the institutions.

Although it is quite good, with mean scores of 3.18 and 3.16, compared to other financial control activities, these two are the least control procedures practiced by the zakat institutions. The second lowest mean score is whether zakat payers are pre-listed and identified before zakat collection starts, with a mean score of 3.18, which is also quite acceptable. In the contrary, the second highest score is 4.26, which indicates that amounts are recorded promptly in the accounting records as it is received, and also no disbursements can be made until the amount is recorded.

The mean scores of the other control procedures over receipts are between the highest and lowest mean scores mentioned above. The remarkable areas that zakat institutions have good practices are: receipt vouchers preparation for amounts received, and that an independent person verifies the accuracy of the received amounts. In addition, bank reconciliation is also done by an independent person. These areas score above a mean of 4 points which, in this study, is considered very high level of practice of financial control. According to the mode, 5 and 4 are the most frequently occurring answers. These two figures represent “always” and “often”, respectively.

Similarly, all 10 zakat institutions reported that necessary documents, specifically receipt vouchers, are issued for all zakat funds collected. In addition, all institutions record zakat amounts on a daily basis except one zakat institution which performs recording of cash receipts monthly. Equally, zakat institutions affirmed that an independent person, other than the cash custodian, verifies the petty cash management activities regularly.

In conclusion, financial control procedures over receipts in the majority of Malaysian zakat institutions appear to be quite good. Although the strength of the control areas varies from one procedure to another, generally the status of financial control over receipts is good. The general mean of all Likert-scale questions’ scores is 3.80 this is considered quite strong, while according to the other sections, YES-NO section, the percentage is very high at 93.3%.

Control over disbursements practices
As Wooten (2004) argued, that the most important part of proper control over the disbursement is that, all major disbursements should be authorised by the responsible officer and then accurately recorded. Another control that sits in checking the accuracy of the cash disbursed is reconciling the bank statement on a timely basis (Wooten et al., 2003). Additionally, to initiate a petty cash fund to meet all minor expenses is considered an essential tool for better cash disbursement control. The objective of this section is to identify whether zakat institutions employ financial control mechanisms which ensure that cash is disbursed only upon proper authorisation of management and for valid purposes, and that all disbursements are properly recorded.
In this section the respondents were asked to answer one of five-point Likert-scale questions that consist of 1 to 5. (1) Indicates “never”, while (5) was assigned to indicate “Always” and (2) to (4) to indicate varying degrees of intermediate implementation of the financial control procedures.

The results showed that the lowest mean score is 4.34. The range of the mean is from 1 to 5, therefore, a score of 4.34 and above is considered very high, which shows that the control over disbursement is very strong compared to other control procedures. The highest mean score in the reconciliation with the bank, at 4.63 points. This is a good indication that zakat institutions always reconciled the bank statement on a regular basis. Similarly, as the mean score shows 4.59 points in disbursements, except for minor items, are made by serially pre-numbered cheques. Not only that, after payment is made, cheques are registered in the Cheque Register or cash payment book (with mean score of 4.58). Likewise, zakat institutions always manage minor cash expenses through petty cash fund (with mean score of 4.34). As discussed earlier, the first and most important step to ensure control over cash disbursement is the authorisation for each payment. The mean score of this procedure is 4.53 points. This means a majority of the disbursements is authorised by the responsible person. It is also interesting to observe that the mode is 5 for all procedures, which means almost all respondents answered that, the disbursement control is “always” practiced. Similarly, all the 10 zakat institutions reported that payment vouchers are used to support each disbursement before the amount is released. Payments by cheques are also used for a majority of the cash disbursements. All zakat institutions reported that amounts cannot be released until two or more signatories append their signatures as the normal rule. The requirement of two or more signatures on all payment slips or cheques is another safeguard tool to assure that cash is only spent for an agreed purpose and only for zakat funds as earmarked.

With regards to the issue of over-budget usage, six zakat institutions have mentioned that their payments are limited to the budgeted amounts, leaving four zakat institutions that are yet to consider budget limitations. This means the majority of the institutions surveyed, expend and disburse only what has been budgeted. But what is interesting is that, if over-budget disbursements have to be made, a majority of zakat institutions disburse over-budgeted amounts with the approval of the responsible authorities. Out of the ten institutions, six reported that such budget overage is approved by the director or general manager, while two institutions noted that the budget overage is approved by the controlling/finance.

In conclusion, the overall mean score disbursement is 4.53 points, which signifies very strong practices of the respective financial control procedures. Similarly, the over-budget usage and its proper approval also show very high percentage (92.5%) of financial control procedure practices. So, the control procedures over disbursement are very strong in Malaysian zakat institutions.

Financial reporting practices

Reporting the institution’s financial results can help the administration and zakat payers to obtain financial data and make effective decisions. Greenfield and Larkin (2000) state that the most significant contributing source of information to measure any organization’s performance is the annual report. Thus, reporting is an important part of financial control that can show whether the institution is on the right track or not and also if the institution complies with the leaders’ and zakat payers’ desires.

In the results, the 10 zakat institutions prepare financial reports regularly except one zakat institution that did not provide information about its financial reporting. Out of the ten, seven zakat institutions provide financial reports both on monthly and yearly basis; leaving two institutions that only prepare yearly financial reports. Although it is not included in the options of the questionnaire, one of the institutions indicated that it produces its financial reports on a daily basis.

According to the delay period of financial reports, a majority of the zakat institutions (i.e.,8) reported that the delay period does not exceed three months, while only two institutions stated that their report delay takes up to the sixth month of the next year. Nine of the ten zakat institutions disseminate financial reports, as produced, to the (selected) stakeholders of zakat institutions. Only one institution did not give any information about reports’ provision to the (selected) stakeholders.

To identify the users of the financial reports, respondents were asked to choose from a list of options. The majority of the zakat institutions provide financial reports to “controlling/finance committee”, “zakat payers/donors” and “Religious Counsellors”, with only two institutions providing also to their “administrative staff” and the “representatives of the public”. Similarly, a majority of the zakat institutions provide the statements of “collection and disbursement”, “balance sheet” and “income statement”. Out of the 10, six institutions provide the report of the “next year’s budget” into the financial statements that are presented to the stakeholders. There was no institution that provides a report on the financial problems.

With regards to the financial reports audit, eight zakat institutions are audited by the auditor general (Jabatan Audit Negara), while the other two zakat institutions are audited by a public auditing firm. This gives a positive indication to the financial control status of the zakat institutions in Malaysia. Even though the auditor cannot guarantee that auditing of reports prevent fraud or mismanagement, at least he can give a reasonable assurance as to the fairness of the financial statement and play a watchdog role in the area of fraud (Bowman, 2004).

According to the Likert-scale questions, the mean scores of both auditing function and budget variance reporting are above 4. This signifies that almost all zakat institutions audit their financial statements annually, and by an independent auditor. Overall, the financial reporting conditions of zakat institutions in Malaysia are quite good.

CONCLUSION

The central purpose of this chapter is to explore the status of financial control in Malaysian zakat institutions. The results of study showed that financial control practices of zakat institutions in Malaysia are generally good. Control over disbursement procedures and reporting system have scored the highest level of practice compared to the other two control procedures, control environment and control over receipts. Although the strengths of control procedures are in different levels and there is a need to improve control environment and control over receipts, an overall assessment shows that zakat institutions of SIRC in Malaysia have quite good financial control practices.
As discussed earlier, a good financial control practices may be an indicator of better financial accountability. Although there are weaknesses in some areas, such as having financial policies, procedures and preparation of annual budget regularly, the overall conclusion is that zakat institutions have a quite good financial accountability system to accomplish its transcendental missions allocated by society. However, the general system of financial accountability is acceptable; there is still room for further improvement in order to achieve better financial control practices.

Future research areas
This chapter examines the state of financial control procedures zakat institutions in Malaysia. Many other specialised research areas can be explored by future researchers. For instance, in order to carry out a concrete analysis of financial control procedures, a researcher may include all zakat institutions employees. Using also other data collection methods such as interview and observations, may give a better level of understanding and deeper comprehension of the financial control problems faced by the zakat institutions.

In addition, since this study concerns only zakat institutions in Malaysia, future researchers may have interest in comparing Malaysian zakat institutions with practices in other countries. It will be also interesting if the study is expanded to other nonprofit Islamic religious institutions. As highlighted earlier, one of the most interesting and important area for future research is to develop a financial control model for nonprofit Islamic religious institutions.

REFERENCES

