

A Case Study of Internal Control Practices in Islamic Non-Profit Organizations in Malaysia

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ABSTRACT

This paper presents the current internal control practices of Islamic non-profit organizations in Malaysia. This study employs comparative case study method by using interview for its data collecting approach. Three Islamic non-profit organizations with similar characteristics were selected as samples for this study. Findings showed that several similarities in internal control practices aspects such as segregation of duties, authorisation of transactions and documentation of records in the organizations. Different practices were also identified, especially in physical control over assets and records and independent checks on performance aspects. The study found inadequate physical control over assets and records, such as installation of alarm and CCTV camera, hiring a guard over premises and also a barrier to financial documentations and room. Also two out of three Islamic non-profit organizations did not practise internal audit processes for independent checks on performance. Based on these findings, several suggestions were highlighted for improvement. This paper also identified issues and challenges in the internal control practices, such as lack of financial staff, low equipped physical control tools, not assigning internal auditor for frequent review over operation purposes and financial limitation.

Keywords: Internal control; Company limited by guarantee (CLBG); Islamic charity fund; Islamic social accounting

INTRODUCTION

Nowadays a day, hardly goes by without the media news informing on millions of people leaving their hometown and cities due to unresolved war crises in certain countries. These people, known as refugees, lack the basic necessities such as food, shelters, clothes, and education. To make it worst, the majority affected by these war crises were Muslims as these crises occurred mostly in the Middle-East countries. These crises affected millions of Muslims who not only lost their relatives but also their belongings. To overcome these losses, lots of humanitarian reliefs and aids are supporting these refugees. They come from various organizations; government, private, and non-profit sectors. These aids are highly contributed by the non-profit sectors, especially organizations who are objectively related to these humanitarian reliefs. There are lots of aids, such as in terms of money, volunteers, shelter, clothes, food, and medicines given by these organizations to support the affected Muslims.

These contributions involved lots of funds, especially by Islamic organizations who receive them from the public at large. These funds are basically known as the Islamic charity funds, regardless of their types such as *sadaqah*, *waqf*, and *zakat*. Funds contributed can be in terms of cash, and goods. Jon et al. (2005) estimated the Muslims' contribution in terms of Islamic charity funds is within USD250 billion to USD1 trillion per year. Meanwhile, Obaidullah and Shirazi (2015) stated that there is excess of about USD600 billion of *zakat* from the Organization of

Islamic Cooperation (OIC) member countries, which may be annually distributed for humanitarian action.

These huge amount of money involvement will eventually lead to issues and problems, especially in handling the process of collection, management and distribution. Several previous studies (Greenlee et al. 2007; Roslyn et al. 2010; Siino 2004; Vanderwarren 2001) have identified many abuses and misconducts of religious charity funds that give negative perception, especially to the public regarding the non-profit organizations' accountability. As part of the religious charity funds, Islamic charity funds also need to be assured of their management practices, especially in collection, management and distribution process. One way to assure good management of Islamic charity funds is by having good internal control practices.

This paper focuses on the internal control practices by three Islamic non-profit organizations with humanitarian relief objectives in Malaysia. These three Islamic non-profit organizations known as CLBG A, CLBG B and CLBG C are registered as the Company Limited by Guarantee (CLBG) category with the Company Commission of Malaysia (CCM). In Malaysia, non-profit organizations with revenue more than RM1 million per annum are normally registered as CLBG. This type of non-profit organization is legally bound by the Companies Act of 1965. CLBG is one of the four main types of non-profit organizations in Malaysia. Three other types of the non-profit organizations are foundations, societies, and associations.

Previously, studies on internal control practices in non-profit organizations were mainly focused on other types of religious institutions such as the Jerusalem Temple (Fonfeder et al. 2003), U.S. Catholic churches (West & Zech 2007), three churches at the Greater Accra (Shaibu 2013) and the state mosques in Malaysia (Sulaiman et al., 2008). However to date there is no study done on internal control practices for other Islamic non-profit organizations types including the CLBG. Although CLBG is part of Islamic non-profit organizations which share similar Islamic social objectives, it still has differences especially in terms of organizational structures, stakeholders, legitimacy procedures, reporting and also disclosure requirements. Thus, it is necessary to investigate current internal control practices in the CLBG to ensure that they are managed with proper and good practices.

In the next section, this paper discusses the relationship between internal control, charity fund and non-profit organization. Then, it continues with the research objectives and design. Next, the background of selected Islamic non-profit organizations for this study is elaborated. Furthermore, discussion will touch on current internal control practices in these organizations. Some weaknesses in current internal control practices will also be briefly explained. Finally, some issues and challenges are highlighted with suggestions for future research.

LITERATURE REVIEW

There are lots of definitions for internal control. Various professional bodies have their own internal control definitions (e.g. Committee of Sponsoring Organizations of the Treadway Commission (COSO) – Internal Control – Integrated Framework, Information Systems Audit and Control Foundation – Control Objectives for Information and related Technology (COBIT), the Institute of Internal Auditors Research Foundation (IIARF) – Systems Auditability and Control (SAC) and the American Institute of Certified Public Accountants (AICPA) – Consideration of the Internal Control Structure in a Financial Statement Audit: An Amendment to SAS 55 (SAS 78). However, in general these internal control definitions share a similar idea (Janet & Bowen 1996).

Internal control is generally known as an activity practiced by an organization in achieving three main objectives; (1) reliability of financial report; (2) effectiveness and efficiency in operations; and (3) compliance with applicable laws and regulations (COSO 1992). It is one of the important elements, especially for a non-profit organization, to operate in good practices. This is because a good internal control can avoid reflected deficiencies that can result in a decrease of public supports, especially by donors (Petrovits et al. 2011). Donation supports are the core elements for most non-profit organizations to survive and deliver their services to the public.

This inter-relation between internal control, charity fund and non-profit organization are believed to indirectly

affect accountability and sustainability of non-profit organizations. This is because the proper internal control will contribute to efficient and effective utilisation of the donated funds (Siraj & Karbhari 2014). Donated funds utilisation will provide public assurance, create positive accountability and make non-profit organizations more sustainable and trusted (Sulaiman et al. 2008). Moreover, previous studies by Abraham (2003) and Sloan (2009) have identified that the positive accountability rating increased the donation received by non-profit organizations.

Furthermore, Jabnoun (2012) has claimed that good internal control practices are essential for good financial accountability. This is because internal control practices will ensure every organization operate according to standards and guidelines (Spillan & Ziemnowicz 2011). Therefore, internal control practices will indirectly increase the quality of financial accountability (Widyaningsih 2015). Besides, internal control practices also require non-profit organizations to report to the authority/superior regarding expected activities and programs' outcomes (Srinivas 2014). Thus, internal control practices will give assurance, especially towards non-profit organization's stakeholders.

In addition, good internal control practices have a relationship with financial disclosure (Kamaruddin & Ramli 2015a). The good financial disclosure must be made by reliable financial information and unbiased data (Siraj 2012). Meanwhile, reliable financial information can be achieved by having good internal control practices (Shiri et al. 2012; Spitzer 2005). Thus, this relationship between reliable information from the internal control practices will affect financial disclosure. Moreover, good internal control practices can also detect and prevent any possible errors that will cause misstatements in financial reports (Doyle et al. 2007).

In general, there are five components of internal control practices: (1) controlled environment; (2) risk assessments; (3) controlled activities; (4) information and communication; and (5) monitoring activities (COSO 1992). These five components are important and their implementations and need to be reviewed quarterly to ensure good practices and relevancies (Spillan & Ziemnowicz 2011). Between these five components, it is believed that the most important internal control component for a non-profit organization is controlled activities. This is due to the involvement of controlled activities within the charity funds whether in the collection, management or distribution process flow (Kamaruddin & Ramli 2015b). Moreover, controlled activities are the essential elements for a non-profit organization to achieve good accountability level (Jabnoun 2012).

Controlled activities can be described into five main activities which are: (1) segregation of duties; (2) authorisation and approval; (3) verification and reconciliation; (4) physical control; and (5) independent checks as stated in the latest edition of *Internal Control – Integrated Framework* (COSO 2012). Each controlled

activity plays important role and function in giving reliable accounting information that are mostly interpreted into the financial disclosure to the public.

Segregation of duties refers to manpower position. For every task or transaction, it must be done by at least two different persons to avoid misconduct or abuse (Srinidhi 1994). For example, every donation box can only be opened in the presence of at least two persons (Sulaiman et al. 2008). Meanwhile, authorisation and approval refer to typical financial transaction involving payment given in exchange for goods and services (Sellen & Schmid 2004). Verification and reconciliation refer to an action that compares two or more documents or information. This is to ensure that all documents or information match, which proved that documents or information recorded are true and fair. The next controlled activity is physical control which refers to assets such as cash, inventories, equipment, securities and other tangible assets are physically secured. Lastly, independent check refers to an assessment to monitor on-going processes whether transactions are performed correctly and completely according to the policies and procedures given.

Although every organization may adopt different kinds of controlled activities reflected by differentiating characteristics for each type of organization (Doyle et al. 2006; Morehead 2007), these basic controlled activities are supposed to exist in each organization. The existence of controlled activities also need to be ensured at a satisfactory level in order to gain good internal control practices for a non-profit organization.

METHODOLOGY

RESEARCH OBJECTIVES AND SAMPLES

This research aims to explore the current internal control practices by Islamic non-profit organizations. This study is the extension of a study by Kamaruddin and Ramli (2015b) on the internal control practices for Islamic non-profit organizations in Malaysia. Therefore, this study identifies the same research question from the previous study which was:

RQ1: What are the existing practices of the internal control practices in Islamic non-profit organizations in Malaysia?

The previous study by Kamaruddin and Ramli (2015b) only used one Islamic non-profit organization in Malaysia as a sample. However, for this study, additional sample units were accounted, involving investigation on three selected Islamic non-profit organizations to answer the research question, namely CLBG A, CLBG B and CLBG C. As for the extension purposes, this paper also considered another research question which was:

RQ2: What are the similarities and differences of internal control practices in Islamic non-profit organizations in Malaysia?

Three selected Islamic non-profit organizations with humanitarian objectives, known as CLBG A, CLBG B, and CLBG C, were chosen as samples for this study. To ensure that findings are unbiased, these three selected Islamic non-profit organizations have similar characteristics which are:

1. Registered as a CLBG category under the CCM, which is bound by the Companies Act 1965;
2. Have similar objectives to support for humanitarian reliefs and provide aids to Muslims around the world;
3. Collect, manage and distribute Islamic charity funds as part of the organizational processes;
4. Located in Malaysia and operated by Malaysian; and
5. Top management assigned for operation functions and the Board of Directors (BOD) was also assigned for monitoring and governance functions.

These three Islamic non-profit organizations were selected as a sample for study since they deal heavily on Islamic charity funds. Controlled activities practiced by these three CLBGs, especially on Islamic charity funds, were focused to answer the second research question.

RESEARCH DESIGN

This study used case study method to explore current internal control practices by the three CLBGs. This was because case study was recognized as the best method for exploring a specific system practiced in an organization (Benbasat 1984; Kaplan 1986; Yin 2003, 2014). This study employed exploratory case study as suggested by Baxter and Jack (2008), to find an answer regarding real-life interventions that were too complex to be studied by surveys or experimental strategies.

Data were collected through a shorter case study interview approach (Yin 2014). Interviews were conducted on persons in charge of the financial management in these CLBGs. Due to the concept of anonymity and confidentiality, as suggested by Wiles et al. (2008), the names of these CLBGs will not be disclosed. Information obtained was a primary source (from the interviews), it was therefore unethical to reveal the identity of the organizations. The interviews focused on the control activities based on interview protocol and lasted around one hour. Interview protocol or known as interview guideline was developed by Mason (2002) to ensure that data collected can achieve the objectives of study. In addition, probing was also adopted to ensure collected data revealed 'what we think they reveal' (Treece & Treece 1986).

Interview protocol questions were prepared by focusing on the five main controlled activities. These five main controlled activities: (1) segregation of duties; (2) authorisation of transactions; (3) documentation and

records; (4) physical control on assets and records; and (5) independent checks on performance were stressed because of their involvement as a procedure or policy for Islamic charity funds management practices (Kamaruddin & Ramli 2015b). These five main elements of controlled activities were based on the elements of controlled activities stated by COSO (2012):

1. Adequate segregation of duties – focusing on the person in-charge tasks that are involved in collection, management and distribution of Islamic charity funds.
2. Proper authorisation of transactions – focusing on the entitled power and transactions limit given to the person-in-charge regarding Islamic charity funds.
3. Adequate document and records – focusing on the proper documentations and records involving Islamic charity funds.
4. Physical control over assets and records – focusing on the existence and usable of Islamic charity assets.
5. Independent checks on performance – focusing on other parties who verify the internal control processes regarding Islamic charity funds such as the superior or other people who are not involved in that particular transactions.

For analysis and reporting purposes, this study employed a multiple-case study approach. This approach was used by combining all selected Islamic non-profit organizations information into a single writing (Yin 2014). This approach will provide comparison of internal controlled practices in all three selected Islamic non-profit organizations in Malaysia into a collective form under the single writing. Five main control activities mentioned earlier were focuses and used as themes in analysing and reporting of findings.

To ensure that every statement was documented, the interviews were recorded. The interviews were conducted

from the beginning of June until the end of September, 2015 at the selected Islamic non-profit organizations in Malaysia.

FINDINGS AND DISCUSSIONS

SEGREGATION OF DUTIES

Segregation of duties refers to manpower position. Segregation of duties is done by more than one person to complete a task so as to prevent abuse (Srinidhi 1994). Different organizations require different segregation of duties in internal control and there are no two or more entities having the same internal control (Morehead 2007). It depends on various criteria in organizations such as structures, size, complexity, purposes and management philosophy (Doyle et al. 2006). Therefore, to gain understanding on the segregation of duties in these selected CLBGs, the following question was asked:

Q1: How does your organization financial department operation function in terms of practicing the segregation of duties?

Based on the interviews conducted, a summary of the segregation of duties by these CLBGs are shown in Table 1 below.

For financial staff manpower, these CLBGs scored about 1:6.6 in average. For CLBG A, there are six persons in the financial manpower, including Head of Service Division, who is the one responsible for the financial affairs. While, CLBG B and CLBG C, both have three persons in the financial manpower, including Head of Account Department for CLBG B and Head of Finance Department for CLBG C. From the financial manpower figures, CLBG A was seen as not having problems to segregate its

TABLE 1. Summary of the segregation of duties

Aspects/ Organizations	CLBG A	CLBG B	CLBG C
Financial staff manpower	1:5 ratio	1:8 ratio	1:6.7 ratio
Collecting fund process	The Fundraising Division (receive), Account Department (record) and Finance Department (deposit).	Activists (receive and deposit) and the Account Department (record).	One financial staffs from the Finance Department (receive, record and deposit).
Managing fund process	Top management (prepare the budget) and BOD (budget approval).	Agencies (prepare the budget) and BOD (budget approval).	Person-in-charge for each activity (prepare the budget) and BOD (budget approval).
Distributing fund process	Divisions (request), BOD (approval) and Finance Department (manage).	Agencies (request), BOD (approval) and Account Department (manage).	Person-in-charge (request), CEO or BOD (approval) and Finance Department (manage).
Financial workplace	Yes	Yes	Yes

Source: Authors

financial duties such as in the collection, management and distribution processes as there is enough manpower to carry on these duties by different persons.

Besides that, CLBG A also has to involve its Fundraising Division for collection purposes which means that there is a different division to handle the receiving, recording and depositing processes. This was based on the following conversation that was reported on collection activities:

“...For sadaqah cash receives, mostly it is being held at our premise and the one who is responsible for receiving it is the staff from the Fundraising Division. Cash received is recorded into two copies of receipts, one as a receipt for the donors and another one is passed to the Account Department and the cash is passed to the Finance Department staff for the depositing process. Calculation process will be done by both representatives from the Fundraising Division and Finance Department...”

However, CLBG B is said as not fulfilling all segregation of duties especially in terms of collecting funds. For collecting purposes, they appointed trusted activists for the receiving and depositing processes, while its Account Department was only responsible for the recording process. This was based on the following conversation:

“...We have 73 activists around Malaysia and as our representatives. They are authorized by us to collect funds for our institution. These cash received are then deposited into our accounts based on its purposes. Normally, funds via cash collection are being done by the specific activities or programs with specific purposes. The staff in-charge for receiving process from the Account Department will identify and record any incoming sadaqah funds...”

From this, it is shown that at least there were two different persons responsible in the collecting charity fund process, as suggested by Bowrin (2004). However, this two different persons' practice still did not separate the task for collecting process. This is open to risk where activists may be involved in fraud as he is responsible for the receiving and depositing tasks.

To make it worst, CLBG C faced no segregation of duties as the one responsible for receiving the Islamic charity funds was the same staff who recorded and deposited them into a bank account. This was based on the following conversation:

“...Cash received is done when each fund collection by the programs' committee is given to the Finance Department. Staffs that are in-charge in the receiving process will identify and record any incoming funds. Funds are normally kept safe into a safety box for a few days and then transferred into a bank account by the same staff...”

By not having segregation of duties in these tasks (receive, record and deposit processes), it would open to fraud risk, although it was done under the Head of Finance's supervision (Srinidhi 1994). This was completely different as compared to CLBG A where different staff

received, recorded and deposited the Islamic charity funds under the supervision of the Head of Service Division/ Account Department.

For managing funds process, all these CLBGs have their own budgets prepared by management and approved by their BOD. These budgets were allocated differently for each division/agency/department based on activities and programs conducted. The one who prepared the budget was different from the person who approved the budget which meant there is a segregation of duties for managing the process. For instance, the top management of CLBG A prepares the budget annually and submits for the BOD approval based on the following conversation:

“...We have a budget that is prepared and approved annually. This budget is prepared by the top management and presented to the BOD for approval. Normally it is approved in the first quartile of the year. The budget contains allocation for each division to be spent on activities and programs...”

Similar with CLBG A, CLBG B also had different tasks for the one who prepared and approved the budgets. However, unlike CLBG A, the budget was prepared by the top management, each agency under CLBG B is responsible for preparing the budget and submitting it to the BOD for approval. This was based on the following conversation:

“...Each agency is required to prepare agency's annual budget and presented to the BOD for approval. Each budget is details on allocation for each agency to be spent on activities and programs based on funds available for each agency...”

As for CLBG C, the budget was prepared by the person in-charge for each activity and program and submitted for BOD approval. Although it was different as compared to CLBG A and CLBG B, it still had segregation of duties for budget preparation and approval by different persons. In addition, unlike CLBG A and CLBG B who submitted their budgets annually, the budget is only submitted when it is needed to conduct an activity or program for CLBG C. This was based on the following conversation:

“...At first, the person in charge for an activity will fill the Budget Form from the Finance Department. Together with the proposal and other related documents, these documents are then reviewed by the Head of Finance Department. After approval from the Head of Finance Department, it is passed to the CEO for approval. Basically for a small program or event, we only need the CEO approval. However, for a large scale of program or event, the CEO will get the BOD approval...”

For the distributing funds process, all these CLBGs can be said to comply with the segregation of duties element as the one who requests and manages the distribution process are different persons, as suggested by (Amudo & Inanga 2009; Bowrin 2004; NCSS of Singapore 2009; Shaibu 2013; Sulaiman et al. 2008). In CLBG A, for example, the BOD is the one who approves the distribution process while a financial staff under the Service Division is assigned to

manage the approved distribution process based on the following conversation:

“...Disbursements are not necessarily from the Services Division. It is based on each Division budget to manage the budget approved by the BOD but the Finance Department will conduct the procedures and advice...”

Similar with CLBG A, the disbursement process by CLBG B is also done by different persons. Agencies under CLBG B decides on the usage of budget allocated (requested) and one of the financial staff under the Account Department is responsible for managing the disbursement process. This was based on the following conversation:

“...One staff from the Account Department is responsible for the recipient’s process while another one is responsible for the distribution/allocation process being made by agencies (programs, activities, projects). For the administration expenses, it is also being done by the second staff. Disbursement is made based on the budget allocated for each agency...”

CLBG C also applies the segregation of duties in the distribution of funds process. Based on earlier conversation on the managing funds process by CLBG C, the person in charge for an activity is the one responsible for requesting the disbursement funds and the Finance Department is responsible for managing the disbursement process. The following conversation also can be referred for CLBG C disbursement process which was:

“...Person in-charge will fill a budget form and send it to the Finance Department. Head of the Finance Department will evaluate those forms and send them to the CEO or the BOD for approval depending on the amount requested. Once it is approved, the form will return to the Finance Department and the finance staff responsible for withdrawing funds will sign the form before cash can be given to that particular person in-charge or directly to the third party based on needs...”

For the financial workplace, all CLBGs provide a special workplace for their financial staff. Currently, all CLBGs have their own official premises to conduct their operations. At the premise, they divide each department/division, including the one who is responsible for financial matters. By having special workplace for financial matters, it will prevent fraud risks (Shaibu 2013).

Based on these findings, all selected CLBGscan be said to generally fulfil the segregation of duties element, especially CLBG A. Meanwhile, CLBG B and CLBG C still have some procedures, especially for the collection of funds process, to be improved. This to ensure that there is no possibility for abuse and fraud. Considering CLBG A’s practices by involving other division to make sure tasks or duties in the collecting funds process are segregated, it can be a good idea for CLBG B and CLBG C to implement.

AUTHORISATION OF TRANSACTIONS AND RECORDS

The authorisation of transactions and records is another controlled activity that is noteworthy. Basically, the authorisation of transactions, especially financial transactions, is referred to the typical financial transactions involving a form of payment in exchange for goods and services at a point of sale (Sellen & Schmid 2004). It can be either in terms of cash, a paper drafted check, electronic payment transfer, and other forms. Thus, the following question was asked:

Q2: How does your organization financial department operation function in terms of the authorisation of transactions and records practices?

Based on the interviews conducted, a summary of the authorisation of transactions and records by these CLBGs are shown in Table 2 below:

For authorisation of transactions, all CLBGs have the BOD’s decision for every financial decision made. CLBG

TABLE 2. Summary of the authorisation of transactions and records

Aspects/ Organizations	CLBG A	CLBG B	CLBG C
Authorisation of transactions	Set up Limit of Authority (LOA) table from manager to BOD.	Acts to receive and follow every financial decision made.	Set up Limit of Authority (LOA) table for CEO and BOD.
BOD’s roles	Give authorisation and approve all financial decisions for the usage of Islamic charity funds. There is also the management role for the overspending situation.	Give authorisation and approve all financial decisions for the usage of Islamic charity funds.	Give authorisation and approve all financial decisions for the usage of Islamic charity funds.
Limit of amount approval	No amount limit for each activity or program conducted.	No amount limit for each activity or program conducted.	No amount limit for each activity or program conducted. Limit of 20% from the expected donation collected for the fundraising programs and activities.

A and CLB G C are more structured in the authorisation of transactions when they have the Authorisation Limit (LOA) that delegates the financial approval power based on several amounts from the manager to the BOD. LOA is believed in ensuring smooth operation based on previous studies (Moffett & Sloman 1988; NCSS of Singapore 2009; Shaibu 2013; Sulaiman et al. 2008). For instance, the LOA practice by CLB G A was based on the following conversation:

“...We also have the Limit of Authorisation (LOA) for any expenditure we made. Starting from the manager until the BOD, there are different amounts authorized for the expenditure process...”

Although CLB G B does not have the LOA practice, every financial authorisation for CLB G B is still being made by its BOD. By having the BOD roles in the financial authorisation by these three selected CLB Gs, it will increase the integrity and accountability for a non-profit organization (Kumar & Nunan 2002; NCSS of Singapore 2009; Said et al. 2013; Shaibu 2013; Spillan & Ziemnowicz 2011).

However, some weaknesses were also identified based on the current authorisation of transactions of CLB G B. Unavailable authorisation of transactions at the management level will cause ineffectiveness in operation expenditure (NCSS of Singapore 2009). This happens especially during the approval of some routine transactions such as the administration expenditure and payroll disbursements. For these routine transactions, the BOD approval is needed in CLB G B while for CLB G A and CLB G C, such routine transactions are approved at the management level. As the BOD meetings are not held frequently, this will cause a delay for these routine transactions in getting the BOD approval.

Another risk possibility that could arise is that there is no limitation on the amount of Islamic charity funds used for each project, program or activity by all CLB Gs. Although previous studies were more focused on the overall expenditures as compared to the specific expenditure on each program or activities (Trussel 2003; William & Robert 2003; Zimmermann & Stevens 2006), by not having an amount limitation could give some benefits where certain organizational objectives can be achieved. This happens especially when it is involved with a high amount of money in the distributing process.

However, it will open to the unbalanced distribution in terms of the project, program or activity. This happens as some projects, programs or activities might not be fully adopted as others with a high amount of distributing process implemented due to limited resources. This, however, can be solved by having the BOD directions on how these charity funds are allocated and utilised for distribution process (Spillan & Ziemnowicz 2011).

Although the BOD authorisation is currently practiced by these three selected CLB Gs, there are also some management roles, such as to authorize for the overspending

situation. This happens in CLB G A where its management authorizes and is responsible for overcoming this over spending situation based on the following conversation:

“...If spending is over budget, there will be a special meeting for our management to discuss on that particular issue and solve it. But until now, every our surplus spending still can be covered from the overall revenues...”

However, this causes an issue whether over budget spending is a common practice by CLB G A. Besides that, by having only the management level to settle this over budget spending matters will create another issue whether their BOD is aware on these over budget practice or not. Unlike CLB G B and CLB G C, all spending processes need to be done through the BOD knowledge.

For the fundraising programs and activities, CLB G C informed that they have special limitation on expenses policy. This was based on the following conversation:

“...We have a limit of expenditure if that expenditure is for fundraising programs and activities. It must not exceed 20% from the expected donation collected. But for the relief programs and activities, we do not have a limit of the amount to conduct the relief programs and activities. Normally, the Head of Finance Department is the one responsible to evaluate the expected donation collected for each fundraising program and activity...”

By having only maximum 20% from the expected collected donations authorized for expenses purposes on these kinds of programs and activities, it can reduce the risk for the investment made in collecting donations. This also shows that CLB G C is careful on the distribution process to ensure funds collected achieve their objectives and goals. Based on these findings, all the selected CLB Gs, in general, can be said to fulfil authorisation of transaction element, especially CLB G A and CLB G C. Meanwhile, CLB G B still has some procedures to be improved especially the LOA practice. This LOA practice is suggested for CLB G B to increase the effectiveness of operation for the authorisation process. Moreover, CLB G A needs to reconsider its management roles on the over spending practices by at least to be done under the BOD acknowledgment. For the amount limit approval, the current practice by CLB G C, which is setting a limitation on a certain amount for fundraising activities and programs, is suggested.

DOCUMENTATION AND RECORDS

Documentation and record process can be described as a process to communicate transactions that occur into meaningful information to users. In order to have good quality in documentation and records, there are five characteristics stated by Groth and Moreau (2009). Those characteristics are immutable, attributable, finalise, autonomously creatable, and process reflecting. These characteristics should exist in the documentation and record activities. In order to identify documentation and record practices, the following question was asked:

Q3: How does your organization financial department operation function in terms of documentation and record practices?

Based on the interviews conducted, a summary of the documentation and records by these three CLBGs are shown in Table 3 below.

For documentation and record process, all CLBGs had proper documentation and records due to an accounting software implementation. This is because accounting software acts as a tool in ensuring better documentation and records process (Booth 1993). Among these CLBGs, CLBG A has the best accounting software as it was custom-developed for the use of CLBG A. Quick Book accounting software is suited with the needs and matches with the CLBG A structures. This was based on the following conversation:

“...We also have accounting software, named Quick Book which supports our documentations and records. This accounting software actually was introduced by Organization Z. Moving forward because of the size of transactions and to cater all 45 countries including field officers, we will change into the new accounting software from the previous one. Current accounting software acts as stand-alone but the new one will have a direct link with Organization Z and all other branches...”

One of the branch companies under Organization Z, CLBG A uses Quick Book; the custom-developed accounting software with the cost covered by Organization Z. Although CLBG B and CLBG C do not have the custom-developed accounting software, they still have good documentation and records by using a purchase accounting software which is MYOB and UBS, respectively.

For documentation and record materials, all three CLBGs had proper documentation and record practices such as receipts, procurement forms, quotations, invoices and other written evidences prepared and filed in proper sequences as suggested by previous studies (Bowrin 2004; NCSS of Singapore 2009; Shaibu 2013; Sulaiman et al. 2008).

For the record purposes, all selected CLBGs had proper records for every collected and disbursement amount

of funds. In addition, CLBG B also had detailed records where it classified each type of funds received into several categories. This was mentioned earlier in the segregation of duties where every receiving fund purpose by CLBG B was recognized based on the donors' preference. Moreover, the following conversation also supports this detailed record practiced by CLBG B which was:

“...For sadaqah funds classification, it is systematic as each collected sadaqah fund is categorized its purposes by the representative activists...”

Each documentation and record also had, at least, two copies that supported the verification and reconciliation process as suggested by previous studies (NCSS of Singapore 2009; Shaibu 2013; Sulaiman et al. 2008). For cash receipts, for example, both CLBG A and CLBG B have two copies of them while CLBG C has three copies. The following conversation shows how CLBG C practices three copies of cash receipt:

“...Receipt is given to donors. Every sadaqah funds received by the Finance Department, three copies of receipts are created. The original one is for the donors and the second copy is kept by the Finance Department to be filed. Then, these receipt copies are being reconciled with the bank statements for verification. The third copy is kept with the receipt book. It will be used as a backup if only second copy is missed or lost...”

Although these elected CLBGs have proper documentation and record practices, there is also a special case by CLBG A in the open tender procedure where getting three copies of different quotations is not applicable when it deals with its Panel Suppliers. This was based on the following conversation:

“...We have our trusted suppliers (Panel Suppliers). For every expenditure process, we asked our Panel Suppliers to give their invoices as the common practices. However, if our Panel Suppliers are unable to supply certain goods and services, three quotations are requested from any other suppliers. Besides that, we also used procurement forms as the common practices for expenditure process...”

TABLE 3. Summary of the documentation and records

Aspects/ Organizations	CLBG A	CLBG B	CLBG C
Accounting software	Quick Book	MYOB	UBS
Documentation	Proper documentations. Do not apply open tender procedures (Panel Suppliers).	Proper documentations.	Proper documentations.
Record	Proper record (collecting, managing and distributing).	Proper record (collecting, managing and distributing) including classification of fund by purposes (activities and programs).	Proper record (collecting, managing and distributing).

Source: Authors

This case is similar with a case identified by Shaibu (2013) which happened at certain churches at the Greater Accra where the procurement process by using quotations is not used if such expenditure can be supplied by the churches' committee members. Although it will create another possibility which is over charged expenditure, the 'trust' built between CLBG A and its Panel Suppliers can also bring the possibility of getting discounts for every transaction made between them.

Based on these findings, all these selected CLBGs can be said to generally fulfil the documentation and record element. Although CLBG A does not apply the open tender procedure to its Panel Suppliers, it still applies the invoicing procedure for its Panel Suppliers which means it records every transaction made. For receiving fund records, CLBG B has a good practice where each type of funds received is classified in detail. This practice is also suggested to be practiced by CLBG A and CLBG C as it will increase the accurate management of Islamic charity funds based on the donors' preference. By having good practice in documentation and records, it will lead to more reliability, especially for audit process and give more assurance for financial disclosure (Irvine 2005; Shiri et al. 2012; Spitzer 2005).

PHYSICAL CONTROL OVER ASSETS AND RECORDS

Physical control over assets can be described simply as a process in securing assets. Assets can be of tangible and intangible forms. The asset that is mostly concerned in CLBG C is *sadaqah* funds or the money itself. Other physical assets such as premise, donated kinds and also documents and records need to be secured as well as *sadaqah* funds. Although previous studies, such as by Amit and Schoemaker (2012), stated that there is no comprehensive general strategy or model in safeguarding assets, assets still need to be safeguarded. In order to identify the physical control over assets practices, the following question was asked:

Q4: How does your organization financial department operation function in terms of physical control over asset practices?

Based on the interviews conducted, a summary of the physical control over assets and records by three CLBGs are shown in Table 4 below.

For cash physical control, all three CLBGs have the proper tool to safeguard cash type of assets by having safety box to keep the Islamic charity cash funds collected. This physical control tool is necessary especially when it involves cash donations received from the public (Bowrin 2004; Fonfeder et al. 2003; NCSS of Singapore 2009; Spillan & Ziemnowicz 2011; Sulaiman et al. 2008). Currently, both CLBG B and CLBG C have one safety box for each while CLBG A has three safety boxes. The functions and locations for the three safety boxes in CLBG A are based on the following conversation:

"...We have three safety boxes to keep safe the funds received in term of cash. The biggest one is located in my office and its size is big enough that I can fit into that safety box. The second one is located at the Financial Department Room for keeping cash before the bank-in process. The last one is located in the Fundraising Division Room. If they received cash from the donors and couldn't submit to the Finance Department for the depositing process, those cash will be saved into their safety boxes temporary. We also have petty cash for administration uses that is also kept in a safe..."

For authorisation on safety box, all three CLBGs only an authorised staff is responsible with financial affairs to have an access to safety box as suggested by National Council of Social Service (NCCS) of Singapore (2009). This authorisation over safety box is important as it can prevent any possible fraud and theft risk.

Besides that, all three selected CLBGs also have petty cash. Although there are different maximum amounts set by each CLBG for petty cash limit, they put the petty cash under the supervision of the Head of Finance Department. This practice is believed to be driven by of their institution size factor, which is small.

For the financial documentation and record access, both CLBG A and CLBG B have a special place to keep their financial information with some barrier access to it. Other people who are interested with the financial documents

TABLE 4. Summary of the physical control over assets and records

Aspects/ Organizations	CLBG A	CLBG B	CLBG C
Cash physical control	Safety box and petty cash.	Safety box and petty cash.	Safety box and petty cash.
Financial documentation and record access	Special door access to enter the financial documentations and records room.	Financial documentations and records access only with the Head of Account Department's permission.	No barrier into financial documentations and records room.
Other physical control assets	Hires guards, uses door access, installs alarm, CCTV camera and implements tagging system for asset safeguards.	No hired guards or installed CCTV camera but has door access, alarm and tagging system for asset safeguards.	No hired guards, installed CCTV camera and alarm, or tagging system for asset safeguards. Only has door access.

Source: Authors

and records need to get permission from the Finance Department to access them, as suggested by previous studies (Bowrin 2004; NCSS of Singapore 2009; Spillan & Ziemnowicz 2011; Sulaiman et al. 2008). This practice is especially based on the following conversation with a respondent from CLBG B:

“...We also prepare a safety box for emergency use when we need to put cash temporarily. That safety box is located together with documents and records in my room. I also become the only one who can assess that safety box, just the same as the petty cash...”

Meanwhile, CLBG A uses special door accesses into the financial documents and record room. This special door access is only authorized to the financial staffs. This was based on the following conversation:

“...We also have door access with this ‘touch n go’ (showing staff ID) card. But for the Finance Department, we have our specific place and only the financial staff card (financial staff ID) is authorized to access it...”

However, other physical control tools for other assets and records were poor. Unlike CLBG A, both CLBG B and CLBG C did not hire a guard or install CCTV camera for safeguarding the premise. To make it worst, CLBG C neither install an alarm system nor implement the tagging system for its assets. There is also no such barrier to access the financial documentation and record room for CLBG C.

Compared to CLBG A and CLBG B, both installed an alarm system at their premise and also applied the tagging system for their assets. CLBG A can be said to be equipped with adequate physical control tools as it hired a guard and also installed CCTV camera to safeguard its premise as suggested by the NCSS of Singapore (2009).

Based on these findings, only CLBG A can be said to fulfil physical control over asset and record elements. CLBG C can improve its physical control over assets and records by having at least a barrier to access the financial documentation and records as practiced by CLBG A and CLBG B. CLBG C also needs to consider installing an alarm for the premise and other physical safeguarding of the assets.

INDEPENDENT CHECKS ON PERFORMANCE

Independent checks on performance is a monitoring process on the ongoing operation and flows in an organization. Zhang et al. (2007) identified three major internal control weaknesses and one of them is lack of independence checks or monitoring process. Independence check is important in identifying risks and dealing with it. Besides that, the independence of the person who is responsible for monitoring also need to be focused. In order to identify independence check practices, the following question was being asked:

Q5: How does your organization financial department operation function in terms of independent check practices?

Based on the interviews conducted, a summary of the independent checks on performance by these three CLBGs are shown in Table 5 below.

For external audit process, all these CLBGs have proper independent checks when they appoint an external auditor to acquire audited financial statements every year. This is due to the set up requirement by the CCM for every company including CLBG type to submit audited financial statements annually to them. By having the audit process, it is also required for these three CLBGs to have an adequate and reliable financial documentation and records (Irvine 2005; Shiri et al. 2012; Spitzer 2005). Thus, this shows that all three CLBGs comply with the independent checks on the performance element for control activities.

However, for the internal audit process, only CLBG A practices internal audit process as compared with the other two CLBGs. This is because Organization Z, the parent company of CLBG A is the one who appointed the internal auditors to conduct the internal audit processes for all of its branch companies including CLBG A. This was based on the following conversation:

“...As a branch of Organization Z, CLBG A has been internally audited by internal auditors hired by Organization Z for every two years...”

TABLE 5. Summary of the independent checks on performance

Aspects/ Organizations	CLBG A	CLBG B	CLBG C
External audit process	External auditor assigned as part of requirement.	External auditor assigned as part of requirement.	External auditor assigned as part of requirement.
Internal audit process	Internal auditor assigned by Organization Z (Parent organization for CLBG A) for an assessment for every two years.	Internal auditor not assigned. Director-in-charge to monitor the Account Department performance continuously.	Internal auditor not assigned.
External auditor rotation	No	Yes	No

Source: Authors

This internal audit process rotation is done once every two years. Although internal audit process is suggested to conduct each year by Spillan and Ziemnowicz (2011), having internal audit process like CLBG A is a good practice. Moreover, its internal auditor independence is secure as it is appointed by Organization Z. This is because internal auditor independence is an important thing for an organization (Konrath 1996).

For CLBG B, although it does not appoint any internal auditor to do the internal audit process, it still have something similar. This is because the Account Department operation is closely monitored by the BOD members who are appointed to take charge of the financial affairs. This appointed BOD members will do regular monitoring and reviewing on the financial affairs. This was based on the following conversation:

“...As a small institution, CLBG B does not have internal auditor assigned to internally audit its operation. This is also due to the control expenditure cost to minimize the administration cost to maximize sadaqah fund distributions into activities and projects by the agencies under us, but we still have the director-in-charge from the BOD to specifically monitor the financial transactions (Account Department)...”

For the external auditor rotation, CLBG B has appointed two different external auditors within four years while both CLBG A and CLBG C did not have applied external auditor rotation. This will tend to produce some risks if there is no external audit rotation such as coalition between CLBGs and the external auditor as they are known and familiar for a long time. Although there is no rule for audit rotation in the Malaysian practices, there is an advice to rotate the external audit partner that conducts external audit process at least for every five-year (MIA 2011).

Based on these findings, only CLBG A can be said to fulfil independent checks on performance. This is because it has both the internal and external audit processes, which means it has better independent check practices compared to the other two CLBGs. By having both internal and external audit processes, it can be said that an organization has good independent checks on performance (Ahiabor & Mensah 2013; Larbi 2001; Spillan & Ziemnowicz 2011). CLBG B also has an initiative for the internal audit procedure where its BOD appoints one of its members to closely monitor the Account Department performance. This initiative is suggested for CLBG C to implement it.

CONCLUSION

This study presents the control activities of three selected Islamic non-profit organizations in Malaysia. All main control activity elements of the internal control for all three CLBGs, namely segregation of duties, authorisation of transactions, documentation and records, physical control over assets and records, and independent checks on performance in proper practices were identified.

From these controlled activities, it can be said that segregation of duties, authorisation of transactions and also documentation and records were in good practices. There were similarities shared by the three organizations of study in the internal control practices, especially for collection, management and distribution of Islamic charity funds processes. These processes involved more than one person to authorise and handle these processes. There were also proper documentation and records on these processes. Thus, these similarities practices will give assurance to stakeholders in giving accurate and reliable financial information and also indirectly affect financial accountability.

However, there were also differences in internal control practices for these Islamic non-profit organizations. Some lack in physical control over assets and records identified such as installation of alarm and CCTV camera, hiring a guard over premises and also a barrier toward financial documentation and room. Two out of three Islamic non-profit organizations also did not practise internal audit processes for independent checks on performance. Although there are some weaknesses, the major focus on control activities related to the Islamic charity funds itself such as collection, management and distribution processes are in good practices. Thus, proper internal control practices are directly assuring the good practices of utilisation of Islamic charity funds.

Based on the findings, some issues and challenges are indirectly identified such as lack of financial staff for conducting segregation of duties, not well equipped physical control tools applied and not assigning internal auditor for frequent review over operation purposes. Based on these issues, they become major challenges for three CLBGs to adopt a better control activities element which is financial limitations. It is an undeniable fact that in gaining better internal control practices will require high cost, and non-profit organizations such as these three CLBGs need to consider this value over money investment. Moreover, by having good internal control practices could also increase the effectiveness and efficiency of these Islamic non-profit organizations and indirectly lead to good financial accountability practices.

The findings also showed that internal controlled practices in Islamic non-profit organizations in Malaysia especially for CLBG types are different as compared to other previous studies on other religious non-profit organizations practices, such as Jerusalem Temple (Fonfeder et al. 2003), U.S. Catholic churches (West & Zech 2007), three churches at the Greater Accra (Shaibu 2013) and the state mosques in Malaysia (Sulaiman et al. 2008). Thus, this study has significantly contributed to the body of knowledge especially on internal control practices in religious non-profit organizations.

This study has laid the groundwork for several strands of future research. Since this study was based on only three CLBGs with humanitarian relief objectives in Malaysia, it is unsuitable to use them for making generalisation on the

same good practices of internal control in other Islamic non-profit organizations. Moreover, this study has just focused on the CLBG types of Islamic non-profit organizations. Other types of Islamic non-profit organizations also have potential to be studied in the internal control aspects. This study of internal control can also be applied to a broader scope by looking at other religious types of non-profit organizations as well as general non-profit organizations.

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