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## The Effects of Internal Control System, Financial Management and Accountability of NPOs: The Perspective of Mosques in Malaysia

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### Abstract

This study examined the effectiveness of internal control system, financial management and accountability practices of mosques in Malaysia. Based on 500 questionnaires was administered to chairman and treasurer of 250 selected mosques available in Malaysia including Sabah and Sarawak. This study suggests that a proper and accurate recording of financial transaction, enhancing the accountability of chairman and treasurer in order to improve the productivity and performance effectiveness. The inclusion of these variables provides important implications for expanding our understanding of financial management practices in non-profit organizations and creating new research opportunities. The result provides on how Malaysian mosque enhances internal control system and performance to achieve the mission and goals of the mosque. An effective way to improve the productivity and efficiency of financial management practices and management control system in the mosque.

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*Keywords:* budget participation; internal control system; fund usage; accountability; financial management practices; mosque

### 1. Introduction

The responsibility and the burden on the religious institutions are the interaction with budget participation (Brownell and Dunk, 1991); the embezzlement of funds and a scandal about internal control system of religious organization (Sulaiman et al, 2008). The cases involved in mismanagement of the fund generated by the institutions. Later relate to the mosques. The criticism of the financial management practices is due to poor factors of

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management control system (Sulaiman et al, 2008; Abdul Rasid and Abdul Rahman, 2009, Chenhall et al, 2010; Henri and Journeault, 2010; Wahab, 2008 and Amudo and Inanga, 2009).

Some factors that relate to management control system in the mosque are lack of accountability to manage accounting system, less budget participation in the mosque and improper of recording and reporting of income and effective way to find sources of income in the mosque (Alim and Abdullah, 2010). Consequences, it will reduce the quality of management in which the administration of the mosque is not based on Islamic requirement. In addition, a weak internal control system will increase the risk in managing the mosque performance and influence the internal and external management control system which will affect the financial management practices in the mosque.

Quality financial management in mosques includes steps taken by mosque management to increase the level of management quality in the mosque. For example, by organizing seminars for the public in order to build a better relationship between the public and the mosque's management and the *muzakarah* performed by the managing officer in the mosque at the national level. It follows comprehensive financial management practices, which would directly increase the efficiency, effectiveness and value maximization of the mosque (Wahab, 2008).

Management control system is important to financial management practices in the mosque to ensure efficient and proper financial management practices, to ensure the operation runs smoothly in compliance with rules and regulation, to determine the ability of mosque management in measuring and managing activities effectively and to provide information in making better decisions. Therefore, to have a better mosque management, important person such as chairman and treasurer of mosque need to play a role in ensuring the effectiveness and efficiency of financial management practices in the mosque. Thus, the objective of this study is to examine the effect of management control system which are budget participation, internal control system, fund usage and accountability on financial management practices in the mosque.

The study contributes in a number of ways is the best practices of internal control system. The following sections discuss the literature review, methodology, result and discussion.

## 2. Literature Review and Hypothesis Development

Nowadays, the changes of time make the mosques management become more challenging. Hoyge, M. (2009) found that there are two issues arise from non-profit organization of finance theory which is donations and borrowings. Donations defined as revenue from individuals or corporation supporting non-profit organization. The purpose of receiving donation in mosque is to support and help improving the quality or increasing the quantity of services in mosque. This to ensure the program and activities run smoothly.

The mosque is not only a place of worship, but also a place to gain knowledge. It is also a place for communal gathering of the Islamic community members, as well as a place for holding various religious ceremonies and rituals, such as the *akad nikah* (wedding ceremony)(Abdul Rahman and Ahmad, 1996 and Ismail, 2003).

### 2.1 Budget Participation

The meaning of budget is a financial plan and a list of all planned expenses and revenues. It is a plan for saving, borrowing and spending. Williams et al (1990) had investigated the part of Thompson's general challenge by focusing on dimensions of the budget-related behavior (BRB) of managers in complex, public sector organizations. It has been found that it is an important processual variable in terms of enabling organizations to achieve their goals. Leroux (2009) found in her studies that non-profit organizations which are more heavily dependent on private charitable contributions will be less likely to employ participatory governance practices, whereas on government funding will be more likely to employ participatory governance practices.

Most of the studies, Otley and Pollanen (2000) and Brownell (1991) agree that it is very important to involve budget participation in non-profit organization to ensure performance evaluation and effective management. In order to gain acceptance of budget goals and increase organizational effectiveness (Aranya, 1990), maintaining low levels of both budget participation is instrumental in effective organizational strategy and job performance. Thus, it is expected that for this study, budget participation would enhance the financial management of the mosque. The following hypothesis is presented:

*Hypothesis 1 : Budget participation influenced financial management practices in the mosque*

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