

**THE INTERNAL CONTROL PRACTICES OF  
SELECTED MOSQUES IN JAVA, INDONESIA**

**BY**

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**A dissertation submitted in fulfilment of the requirement for  
the degree of Master of Science (Accounting)**

**Kulliyyah of Economics and Management Sciences  
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## ABSTRACT

Internal controls are necessary tools to help organisations attain their organisational goals. Lack of these controls could lead to fraudulent activities, which may hamper the achievement of the goals. Thus, this study aims to investigate the internal control practices in two selected Indonesian mosques: Mosque A and Mosque B. The study employs *the Committee of Sponsoring Organisation – Internal Control Integrated Framework* (COSO, 2013) framework of internal controls to frame the investigation of internal control practices in these two mosques. Data collection was undertaken through interviews and reviews of relevant documents. The findings reveal that the two selected mosques; Mosque A and Mosque B, have five mechanisms of internal control practices in place. These include control environment, risk assessment, control activities, information and communication, and monitoring activities. The internal control practices and the operationalisation are viewed through the lens of accountability. Using the notion of accountability, the study further observed five accountability themes within these two mosques, namely the medium communication, the assessment mechanism, the importance of participatory mechanisms, self-regulation, and disclosure statements and reports. This study concludes that internal control practices are a necessary process to support the accountability operationalisation of the mosque. The results of this study may serve as a potential reference for the improvement of internal control practices in the Indonesian mosques.



## خلاصة البحث

كانت الضوابط الداخلية هي أدوات ضرورية لمساعدة المنظمات على تحقيق الأهداف التنظيمية. وقد يؤدي عدم وجود هذه الضوابط إلى أنشطة احتيالية، مما يعيق تحقيق أهداف المنظمة. وبالتالي، تهدف هذه الدراسة إلى التحقق من ممارسات الرقابة الداخلية في المساجد الإندونيسية المختارة. لقد تم اختيار مسجدين لغرض هذه الدراسة : مسجد أ ومسجد ب. كما توظف الدراسة لجنة المنظمة الراعية – الرقابة إطار الضوابط الداخلية لتأطير التحقيق في ممارسات الرقابة الداخلية المتكاملة (COSO، 2013) في هذين المسجدين. و تم جمع البيانات من خلال المقابلات ومراجعة الوثائق ذات الصلة بها. تكشف النتائج أن المسجدين المختارين؛ المسجد أ والمسجد ب لهما خمس آليات لممارسات الرقابة الداخلية المعمول بها وتشمل هذه البيئة الرقابية، وتقييم المخاطر، وأنشطة الرقابة، والمعلومات والاتصالات، وأنشطة المراقبة. كما يتم النظر إلى ممارسات الرقابة الداخلية من منظور المساءلة وكيفية تفعيلها باستخدام مفهوم المساءلة. ظهرت خمسة محاور للمساءلة، وهي التواصل المتوسط، وآلية التقييم وأهمية الآليات التشاركية، والتنظيم الذاتي، وبيانات وتقارير الإفصاح. خلصت هذه الدراسة إلى أن ممارسات الرقابة الداخلية هي عملية ضرورية لدعم تفعيل المساءلة في المسجد. تعتبر نتائج هذه الدراسة بمثابة مرجع محتمل لتحسين ممارسات الرقابة الداخلية في المساجد الإندونيسية.

## APPROVAL PAGE

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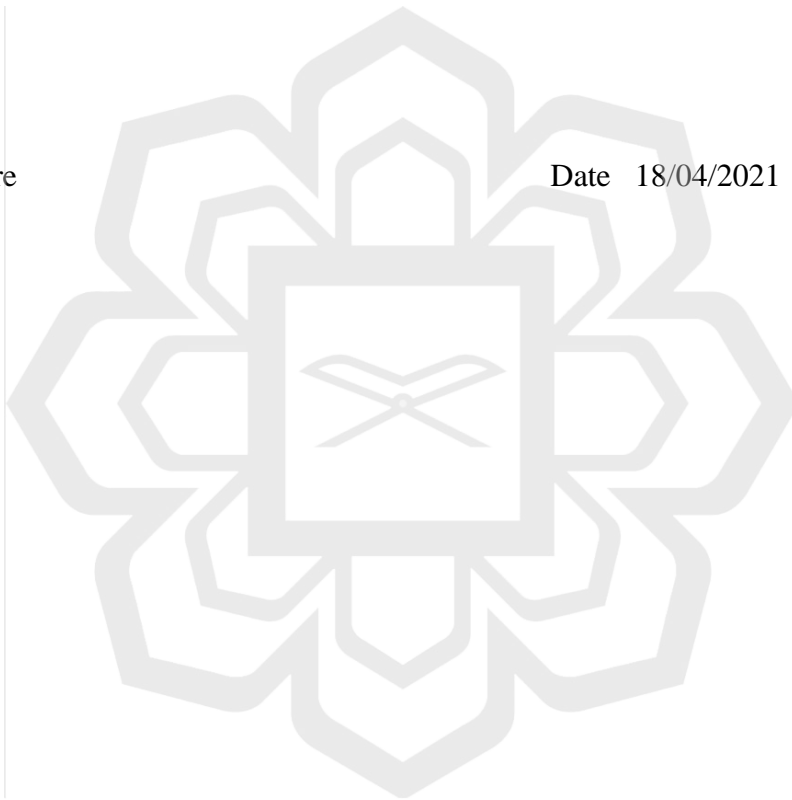
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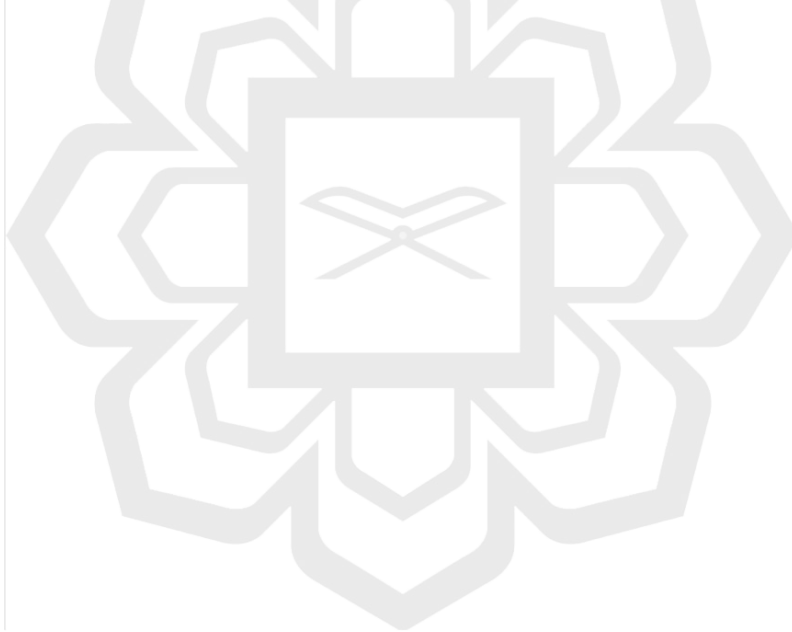
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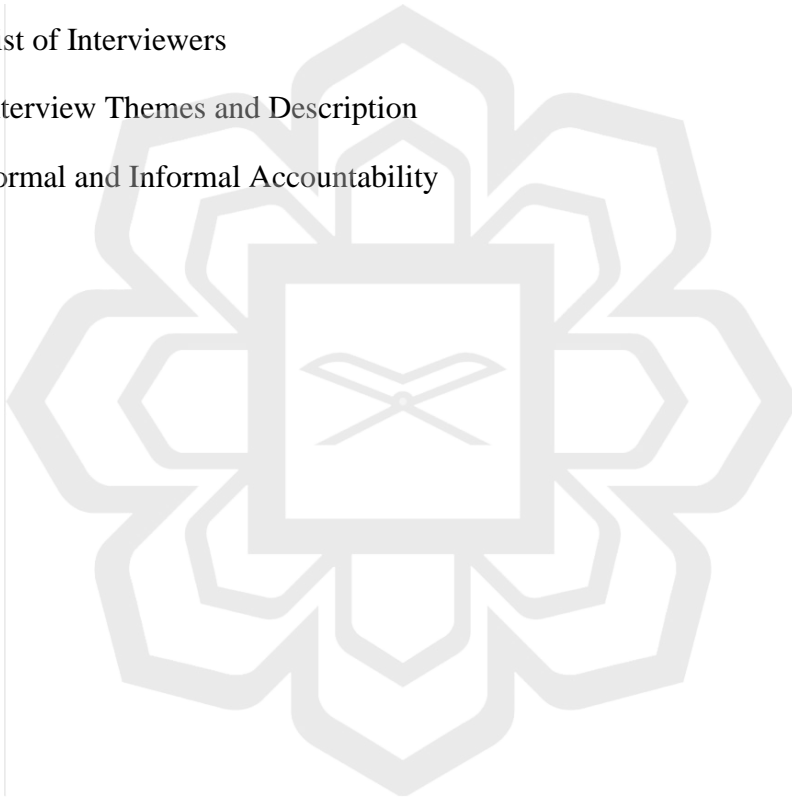
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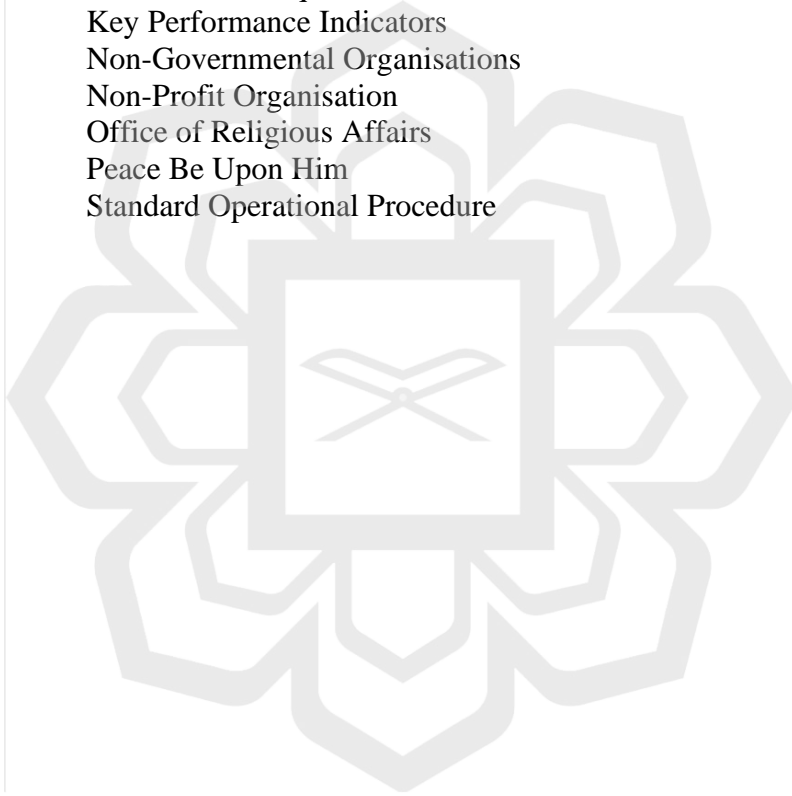


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## LIST OF ABBREVIATION

ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certified Public Accountants
ATM	Anjungan Terima Mandiri
BMT	Baitul Mal wat Tamwil
CEC	Corruption Eradication Commission
COSO	Committee of Sponsoring Organisations
FTT	Fraud Triangle Theory
IFAS	Indonesian Financial Accounting Standards
IIA	Institute of Internal Auditors
IMC	Indonesian Mosque Council
KPI	Key Performance Indicators
NGO	Non-Governmental Organisations
NPO	Non-Profit Organisation
ORA	Office of Religious Affairs
PBUH	Peace Be Upon Him
SOP	Standard Operational Procedure



# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 INTRODUCTION**

This introductory chapter consists of six parts. It begins by presenting the background of the study. This is then followed by a section outlining the problem statement of the study. The subsequent section discusses the motivation behind the study. Meanwhile, research objectives and questions are comprehensively stated in the fourth section of the chapter. The fifth section of the chapter on the other hand, describes the significance and impacts that the study yields. The last section principally outlines the way the study is organised.

### **1.1 BACKGROUND OF THE STUDY**

Internal control is one of the primary functions of organisational management. It consists of a series of systems and information systems that are useful to ensure that the activities of the organisation run as planned (Mintzberg, 1989). Additionally, Bongani (2013) also asserted that internal control helps to improve operational efficiency and enhance effectiveness as well as ensuring compliance with regulations and laws. This shows that internal control is important within an organisation to ensure that operations of the organisations operate effectively and comply with the applied rule.

Non-profit organisations (NPOs) without exception also requires internal control as part of their organisational systems. Their main activities involve providing religious, social services and charity, which generally aimed at improving community welfare (Kolb,

2018). The inherent nature of these organisations gives the impression that they are less likely to be involved in fraudulent activities. Unfortunately, there is an unexpectedly surprising high rate of fraudulent activities reported within the NPOs which include theft, embezzlement, employee misconduct, misrepresentation of financial statements, and corruption (Seyam, Seyam, Salama, and Seyam, 2018). McKeever (2018) noted that approximately US\$ 40-45 billion fraud was reported in non-profit organisations from the period of 2007 to 2010. This figure surpassed US\$ 67 billion of NPOs-recorded-fraud in 2013. Besides, it is evident that non-profit organisations accounted for approximately nine per cent (9%) of the fraud reported and incurred a median loss of US\$ 75,000 based on data by the Association of Certified Fraud Examiners (2018). These cases demonstrate that NPOs are highly vulnerable to becoming breeding grounds for fraudulent activities.

The uniqueness of non-profit organisations lies in regards to its financing and ownership, where most of the organisations receive funds from multiple sources, such as the government, foundations, private donors, membership fees, and donations (Sontag-Padilla, Staplefoote, and Morganti, 2012). In terms of ownership, non-profit organisations have no owner as one that is naturally found in conventional companies. Non-profit organisations are made of stakeholders that include employees, members, volunteers, and clients who benefit from their services or initiatives. Society generally benefits from the involvement of these stakeholders. Furthermore, if profits are incidentally generated by the organisations, they will be used to maintain and be reinvested into the budget and programs of the organisations (Kolb, 2018). Every non-profit organisation has a unique program which may differ from other non-profit organisations. For example, mosques - which fall under the category of religious organisations - have programs in which they manage other non-traditional funds

obtained through *infaq* (non-obligatory charity), *zakat* (obligatory charity), and *waqf* (Islamic endowment). Some mosques in Indonesia for instance, also feature the *Baitul Mal wat Tamwil* (public treasury) -operating to give financial assistance to the community. With significant amounts of funds from diverse sources in hand and the eventual development of internal control issues, mosques today face greater challenges and are susceptible to fraudulent activities due to the way they operate. Mosques tend to have unpaid managers who may or may not have financial expertise (Greenlee, Fischer, Gordon, and Keating, 2007). Managers without specific skills may undertake essential tasks, and they may become magnets of fraud. As characteristics of NPOs suggest their tendency to rely highly on trust, having relatively weaker internal control, and lack business and financial expertise, these factors make mosques - just like any other non-profit organisations - more vulnerable to acts of fraud (Kummer, Singh, and Best, 2014).

In Indonesia - the world's largest Muslim country - mosques play a significant role in people's lives. This has led to many people donating funds to support mosques' activities. As a result, mosques typically obtain vast amounts of public monies. For instance, one of the mosques in Indonesia once received funding from *infaq* amounting to approximately IDR 200 million (USD 13,998)<sup>1</sup> within a month. This did not include funding received from *zakat*, *sedekah*, *waqf*, and other forms of donation. Additionally, it is important to note that up until 2020, there were approximately 800,000 mosques in Indonesia (Rezkiari, 2020). This means that the cumulative amount of fund received by all mosques in Indonesia should be exceptionally vast. Mosques are therefore expected to have a sound mechanism of internal control. The presence of sound internal

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<sup>1</sup> USD 1.00 = Rp 14.288 (as per March 04, 2021 at Bank Indonesia website)

control improves efficiency and enhances effectiveness in the organisation's operational activities (AICPA, 1994). On top of that, the existence of internal control practices will help to prevent fraudulent activities that may occur in the mosques.

## 1.2 STATEMENT OF THE PROBLEM

Across the diverse types of non-profit organisations, religious organisations are particularly vulnerable to fraud (Greenlee et al., 2007). For instance, the Center for the Study of Global Christianity stated that worldwide Christian organisations were assumed to experience more than US\$ 68 billion in financial fraud by mid-2019. The risk for church financial crime only increases when controls are not in place, weak, or not practised at all (Hirschy, 2019).

Furthermore, fraudulent activities seem to also occur in mosques. Employees allegedly defrauding mosque funds regularly cover community news. For instance, a woman in Singapore was found stealing mosque funds of around S\$38,000 between 2017 and 2019 (Lam, 2020). In Malaysia, RM 1 million <sup>2</sup>(USD 246,518) in the misappropriation of mosque funds were found in the process of procuring carpets for the mosques (mstar.com, 2016). Meanwhile in Indonesia, the Chairperson of the South Sulawesi Grand Mosque Foundation, Syarifuddin Daud, was arrested on suspicion of corruption of the Great Mosque grant fund of IDR 5 billion <sup>3</sup>(USD 351,420) (Padmasari, 2018). In 2019, IDR 55 million <sup>4</sup>(USD 3,866) in funds were misappropriated for the construction of a mosque after the earthquake in West Nusa Tenggara (Pratama, 2019).

The Indonesia's Corruption Eradication Commission (*Komisi Pemberantasan Korupsi*) supervises suspected corruption cases related to the construction of the Great Melawi

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<sup>2</sup> USD 1.00 = RM 4,0565 (as per March 04, 2021 at Bank Negara Malaysia website)

<sup>3</sup> USD 1.00 = Rp 14.228 (as per March 04, 2021 at Bank Indonesia website)

<sup>4</sup> USD 1.00 = Rp 14.228 (as per March 04, 2021 at Bank Indonesia website)

Mosque. The stated total loss from this development project is IDR 5 billion (USD 349,944) (Rachman, 2019). Unfortunately, there may still be many cases of misappropriation of mosque funds that have gone unreported (Rachman, 2019).

The causes of organisational fraud - including non-profit organisations - have been attempted to be explained by various theories - the most cited theory being the Fraud Triangle Theory (FTT) of Cressey (1950). The theory identifies elements which influence perpetrators to commit fraud. The FTT theory outlines three elements that are crucial for fraud to occur, including perceived pressure; opportunity; and rationalisation. The first element is perceived pressure which refers to factors that allow for unethical behaviours to occur. These pressures can either be financial or non-financial. The second element concerns the opportunity that is created by ineffective control, allowing an individual to commit organisational fraud. In the accounting discipline, this is termed as internal control weaknesses. The third and final element is rationalisation which refers to the justification of fraudulent behaviours due to an employee's lack of personal integrity or moral reasoning (Rae, K. and Subramaniam, 2008). The presence of these elements can trigger fraud within organisations.

With regards to mosques, the high likelihood for fund's misappropriation is due to a lack of internal control on the use of mosque funds (Sulaiman, 2007; Basri, 2010; Alam et al., 2013; Said, Mohamed, Sanusi, Norzehan, and Yusuf, 2013; Masrek, Mohamed, Daud, Arshad, and Omar, 2014; Mohamed, Aziz, Masrek, and Daud, 2014). The issue of internal control is critical in handling mosque funds and its practice or the absence of it thereby urgently requires significant attention. Hence, sufficient focus should be placed on elements of internal control practices that can be installed to improve resource management, strengthen transparency, improve financial reporting and enhance stakeholder relationships. This will in turn increase the trust and willingness of the

stakeholders to continue financially support religious organisations (Mohamed et al., 2014). This argument is therefore in line with the FTT theory where internal control weaknesses require an effective control mechanism to reduce the chances of organisational fraud. The existence of internal control is essential to maintain the accountability of religious organisations. It is worth noting that few previous studies simply focused on internal control in light of its financial (Sulaiman, 2007; Said, Mohamed, Sanusi, Norzehan, and Yusuf, 2013; Masrek, Mohamed, Daud, Arshad, and Omar, 2014; Mohamed, Aziz, Masrek, and Daud, 2014; Feng, 2018), accounting and accountability aspects (Basri, 2010). Furthermore, it is significant to also note that no previous studies on the topic have ever been carried out in Indonesia. Therefore, as this study examines the internal control practices of mosques in Indonesia, it will be the first comprehensive study ever performed on the highly pertinent topic. Additionally, the study of internal control practices is crucial for religious organisations to improve their management in running activities effectively.

### **1.3 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS**

The primary aim of this study is to examine the internal control practices of mosques in Indonesia. To achieve the primary aim of this research, internal control practices will be examined in terms of the following two research objectives:

- a) To investigate the internal control practices of selected mosques in Indonesia.
- b) To explore the processes of internal control practices of selected mosques in Indonesia.

The following research questions are proposed to achieve the research objectives:

1. What are the internal control practices of selected mosques in Indonesia?

2. How are the internal control practices being implemented in the selected Indonesian mosques?

In answering the first research questions, the study uses the Internal Control-Integrated Framework by the Committee of Sponsoring Organisations of the Treadway Commission (COSO, 2013) as a general guide to investigate the existence of internal control practices of mosques in Indonesia. According to COSO (2013), an internal control system consists of five interrelated components: control environments; risk assessment; control activities; information and communication; and monitoring. These components are an integral part of the processes of internal control of mosques in Indonesia.

The second question denotes the intention to understand how internal control practices are carried out by mosques in Indonesia. Based on this question, we will be able to deduce how the internal control model by COSO is implemented in Indonesian mosques. Moreover, this study intends to see how internal control practices are subsequently employed to identify accountability mechanisms in two selected mosques in Java. Thus, this study will allow us to identify the internal control practices and accountability mechanisms of the two mosques in Java.

#### **1.4 MOTIVATION OF THE STUDY**

Three reasons motivated this study of internal control practices of mosques in Indonesia. Firstly, Indonesia has the largest Muslim population in the world. A mosque is thus a vital institution for religious, social, and cultural activities (Mohamed et al., 2014). In conducting its activities, a mosque is mainly funded by the community. However, some mosques receive funding from the government and foundation. As mosques handle

public funds, internal control over mosque activities has become an interesting area worth investigating.

Secondly, the issue of poor internal control practices in religious organisations (Abdulkadir, 2014; Mohamed et al., 2014; Masrek et al., 2014) is one of the motivating factors behind this study as it is found that inadequate internal control can often create opportunities for fraudulent activities to occur (Lokanan, 2014). Henceforth, a proper system of internal control is essential for religious organisations is worth studied as it can improve the accountability of the organisations.

Thirdly, although there have been several studies carried out regarding internal control of religious organisations (see Sulaiman, 2007; Petrovits and Street, 2009; Bongani, 2013; Said et al., 2013; Masrek et al., 2014; Mohamed et al., 2014; Rosman, Shafie, Sanusi, Johari, and Omar, 2016; Agyei-mensah, 2017; Kamaruddin and Ramli, 2017; Fitria, 2017), it is found that only a few studies have focused on internal control practices of mosques alone (Sulaiman, 2007; Mohamed et al., 2014; Masrek et al., 2014). Apart from that, most of the previous studies were carried out in Malaysia and just a few studies in Indonesia. Therefore, this research is intended to fill the literature gap on the topic by investigating the internal control practices of mosques in Indonesia. Simultaneously, this study also intends to identify accountability mechanisms of mosques which were few addressed in the previous studies.

## **1.5 SIGNIFICANCE OF THE STUDY**

The study is expected to make positive contributions towards knowledge and especially towards both theoretical and practical aspects of the study of internal control. This study is also expected to offer additional understanding to the scant literature of internal control practices of non-profit organisations, particularly, the internal control practices

of mosques in Indonesia. Theoretically, prior studies on internal control have applied a general accountability framework (Agyei-mensah, 2017). However, this study is distinctive as it places a greater emphasis on the Islamic concept of accountability. In addition, this study will also assist in understanding the practical aspects of the internal control practices in mosques based on the findings of internal control practices in the two selected mosques in Java. Moreover, the findings derived from this study of internal control practices of mosques are expected to provide guidelines for religious organisations to be more accountable to their beneficiaries, as a result of which, can lead their programs to become more sustainable in the long run. On top of that, as mosques today are responsible for managing public funds, they are increasingly viewed as public trusts with a supposedly sound internal control practice. Therefore, the findings of this study are expected to optimize the functions of the mosques towards improving the welfare of society.

## **1.6 ORGANISATION OF THE STUDY**

The study consists of seven chapters:

- Chapter 1: **Introduction.** The chapter provides a brief description of the background of the study, a problem statement, motivation, research objectives, research questions, as well as the significance of the study. The chapter ends with a presentation of the thesis structure.
- Chapter 2: **Literature Review.** The chapter offers a review of prior studies concerning internal control practices. The sole focus will be on non-profit organisations - especially religious organisations. Hence, this chapter will identify the existing research gaps in the literature review.

- Chapter 3: **Conceptual Framework.** The chapter outlines the theoretical framework of this study, where accountability forms the foundation of this study. This part will discuss the concepts of accountability proposed by several authors and the application of those concepts towards mosques.
- Chapter 4: **Research Methodology.** The chapter describes a research design drafted for this study which discusses the research methods, data collection, and data analysis comprehensively. It also presents and explains the data display based on the theme of the data
- Chapter 5: **The Context.** The chapter discusses the findings and results of the study. It delivers several internal control practices of the mosques in Indonesia.
- Chapter 6: **The Discussion.** The chapter deliberates the findings of the study comprehensively. It presents accountability mechanisms of the mosques in Indonesia.
- Chapter 7: **Conclusion.** The chapter summarises, discusses its limitation, as well as its contribution to the study. The recommendations for future research are also briefly discussed in the chapter.

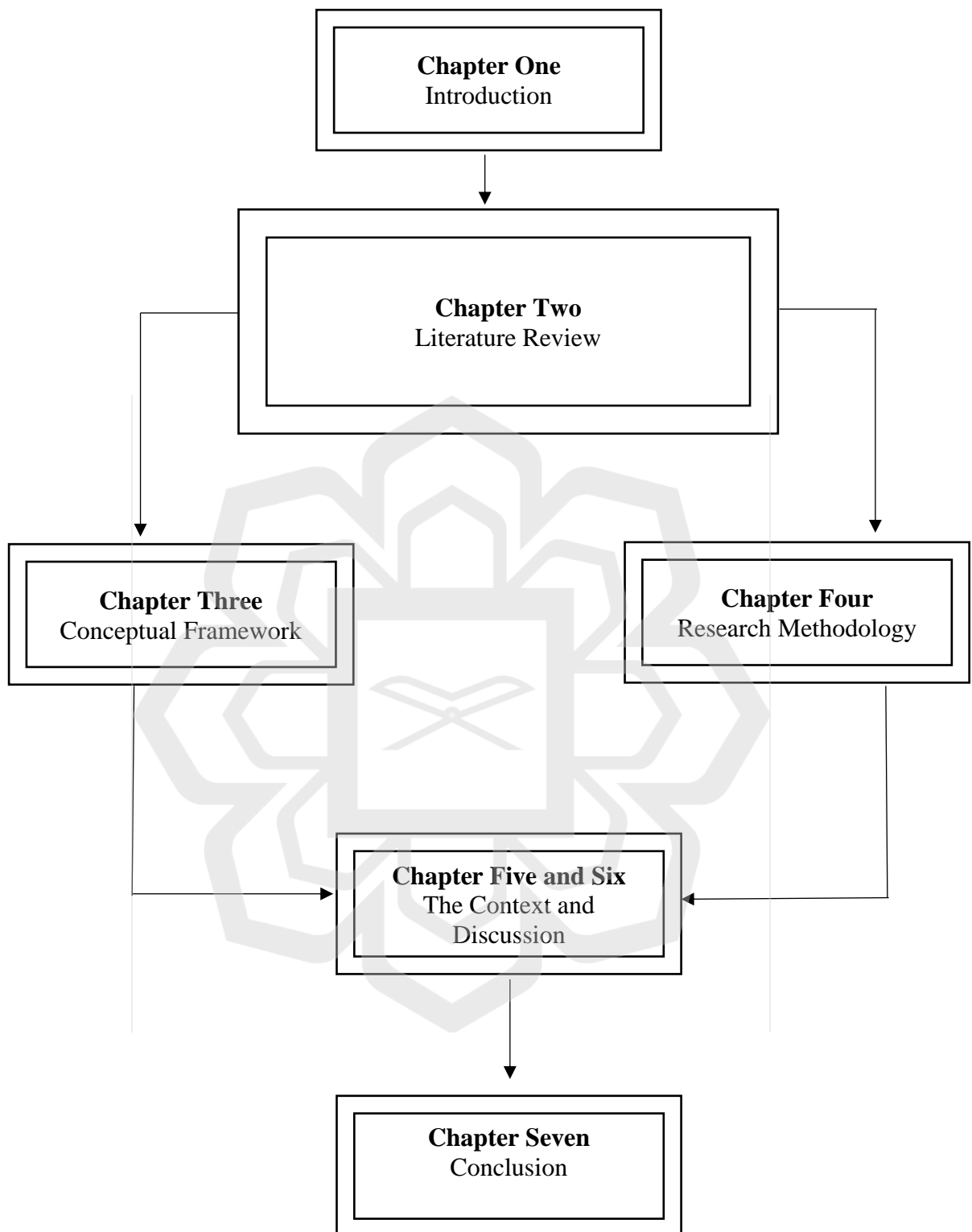


Figure 1.1 Organisation of the Dissertation