

Financial Management Practices and Performance of Zakat Institutions in Malaysia

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Abstract

In Malaysia, critics have raised concerns over mismanagement and goal achievement in zakat institutions. In the light of this, zakat institutions have responded to these concerns by adopting greater transparency to show their accountability. This study examines the current financial management practices and performance in zakat institutions. Six elements of the Financial Management Accountability Index (FMAI), i.e. organisational management, budget, receipts, expenditures, assets and reporting, were used as a benchmark. The study also attempts to find a relationship between financial management practices and financial performance. It employed the census method where all 14 zakat institutions were enumerated, and a sample of 140 employees and 140 customers responded to performance questionnaires. Empirical data were collected mainly through three sets of questionnaires. The data were analysed using descriptive analysis and bivariate correlation. The findings show that receipts, disbursements and asset management are the most crucial areas reflecting a 'good' level of practice by zakat institutions. The results also show that there is a positive relationship between financial management and financial performance. This study is significant as it highlights areas for improvement and hence spurs the institutions to achieve their goal. The results may guide zakat institutions on the means to adopt greater transparency and accountability to the public in future.

Keywords: zakat, financial management, accountability, performance.

1.0 Introduction

The zakat system is a holistic system derived from Islam to uplift the spiritual and socio-economic status of Muslims. It tries to economically help its beneficiaries, i.e. the eight categories of asnaf (the poor, needy, 'amil, fi sabilillah, muallaf, slave who seeks freedom, person in debt, and traveller), and to encourage brotherhood between the rich and the poor. According to Majid (2003), discussion on zakat appears in more than 40 verses of the Qur'an, 170 hadith and in the works of many acknowledged scholars, indicating the significance of zakat. The word zakat is derived from the root word 'zaka' which means cleanliness, growth, praise and blessing (Qardawi, 1980).

Mismanagement in non-profit and religious organisations has always been an issue due to the nature of high trust in employees and less stringent financial controls (Fram, 2019). In line with this, the public becomes more concerned about the effectiveness, accountability and transparency of such organisations (Hasan & Siti, 2010). Zakat institutions, as part of non-profit and religious organisations, have also to contend with various rumours and perceptions. The administration and management expenses were found to have overridden the priorities of distributing zakat funds. Political intervention in the distribution process has worsened the situation (Chodhury, 2012). Improper mechanisms for identifying the beneficiaries and their level of priority also contributed to the lack of effectiveness of zakat institutions. Furthermore, non-availability of accurate data on zakat payers and beneficiaries is one of the sources of corruption in the zakat system (Chodhury, 2012).

Zakat institutions in Malaysia are unique in that they are legislated separately by each state authority (Mohd Fairuz et al., 2018). They are also different in terms of organisational structure. Some are government statutory bodies, while others are corporatised or privatised. The application of guidelines on zakat varies as well. Some zakat institutions follow Treasury rulings, others the Malaysian Accounting Standard Board (MASB), Companies Act, financial best practices of the respective State Islamic Religious Councils (SIRCs) and National Procedure for Corporate Accounting. Moreover, some zakat institutions collect dissimilar types of zakat. For example, some zakat institutions do not collect zakat from Kumpulan Wang Simpanan Pekerja (KWSP). Also, in the reporting and disclosure of information in 2013, merely three zakat institutions distributed their annual reports only, four distributed annual reports and bulletins only and two disseminated bulletins and flyers. These created inconsistencies in financial management and reporting, and thus, performance was hard to compare.

Due to the different financial management styles of zakat institutions in this country, internal control is a crucial factor in ensuring appropriate management and accountability practices. Weak control may invite unpleasant situations such as intentional or unintentional mismanagement, and scandals or doubts among stakeholders. There have been several occurrences in the past. Yearly reports from the Malaysian Auditor General and Public Accounts Committee show considerable mismanagement in government agencies or non-profit institutions such as the Pilgrimage Fund, the KWSP and the Federal Land Development

Authority (Bakar & Saleh, 2011).

Therefore, in order to enhance transparency and accountability, and to convince the public, zakat institutions must observe best management practices in their operations. Amran and Auzair (2011) stated that because trust or amanah has been given to zakat institutions, management effectiveness remains a subject of interest among stakeholders. This shows that the adoption of best practices in financial management is vital in zakat institutions.

From another perspective, zakat institutions have to be accountable to the Muslim public by providing information on their programmes such as how effective zakat institutions are in realising their intended outcome. Keating and Frumklin (2003), as highlighted in Ihsan and Adnan (2009), stated that the stakeholders decide whether to participate and support an organisation based on such non-financial information. It means that if zakat payers do not have confidence in zakat institutions, they will pay zakat directly to the asnaf instead of through zakat institutions. If the asnaf do not have confidence in the institutions, they tend to seek help from others first instead of referring to zakat institutions.

Zakat collection from the public is the major source of funds for these institutions and the asnaf who receive benefits from the funds and expect effective and efficient solutions to their problems. Thus, all levels of society are interested in and affected by these institutions. That is why the public insists on information pertaining to how the money is managed and handled. They want to know the performance of these institutions to ensure operational accountability and transparency. These are the reasons this study was initiated.

1.1 Objectives of the Study

The study aims to realise the following objectives:

1. To identify the current implementation level of financial management practices in zakat institutions
2. To highlight the significant weaknesses of financial management practices in zakat institutions
3. To evaluate the performance of zakat institutions from the perspective of the management, employees and customers
4. To ascertain the relationship between financial management practices and financial performance in zakat institutions

In order to evaluate the financial management practices (FMP) in zakat institutions, 6 areas were assessed, namely, organisational management, management of zakat collection and other receipts, management of zakat distribution and other expenditures, management of assets, management of budgeting and management of reporting. These six areas are a crucial part of financial management introduced by the National Audit Department (Bakar &

Ismail, 2010). Meanwhile, the performance of zakat institutions is based on three perspectives or dimensions proposed by Said et al. (2012). They are financial performance index (FPI), employee satisfaction index (ESI) and customer satisfaction index (CSI).

2.0 Literature Review

Many prior studies have tested the effectiveness of zakat institution operations and management. For example, Mohd Noor, Abdul Rasool, Md Yusof, Ali and Abdul Rahman (2015) discussed issues of fairness, appropriateness, channels and methods of zakat distribution. The distribution of zakat funds is highly dependent on the trend of zakat payment and the distribution budget proposed by the State Islamic Religious Councils (SIRCs). Furthermore, prior studies found that zakat institutions did not manage the zakat funds in their custody efficiently. Abdul Halim, Musa, Mujaini, Hasan and Shawal (2005) and Ahmad and Ma'in (2014) discovered that zakat institutions were lagging in both collection and distribution of resources, particularly in terms of technical efficiency. The studies by Azizah, Musa, Ayob, Norzehan and Mohd Saiyidi Mokhtar (2005), Ahmad Shahir and Adibah (2010), Eri (2004), Halidan (2006), Hasan (2005), Ismail (2006), Kamil (2005) and Zainal Abidin (2006) supported these issues as well.

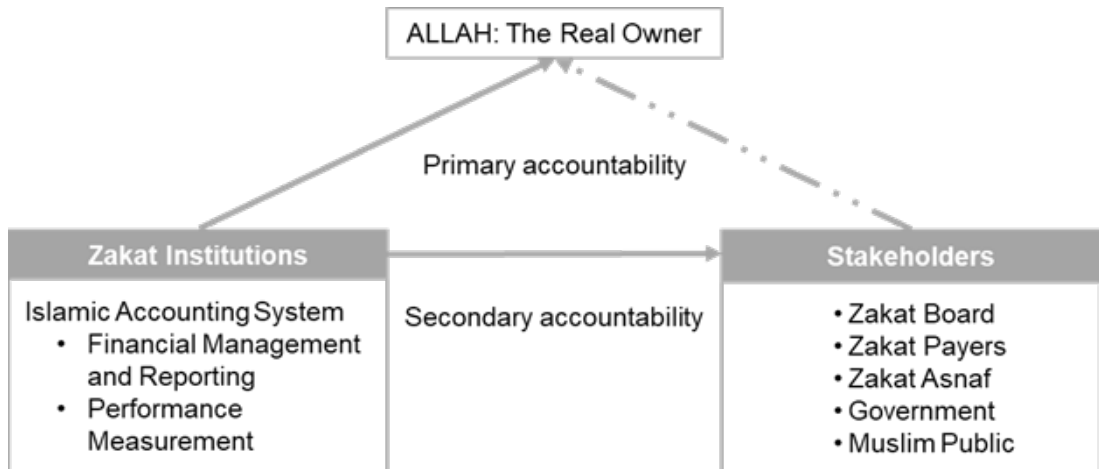
Furthermore, the credibility of zakat institutions in managing zakat fund has also been questioned. Studies by Abdul Halim et al. (2005), Ahmad and Ma'in (2014), Azizah et al. (2005) and Syed Yusuf, Mastuki and Din (2011) discovered that zakat practitioners lacked management accounting knowledge. Thus, public perception of the inefficiencies of zakat institutions is pronounced.

On the other hand, some studies on the exposure of accounting knowledge among zakat practitioners revealed the professionalism of zakat institutions in managing zakat funds. These, however, were contradicted by the findings of Ahmad Shahir and Adibah (2010), Hasan (2005) and Kamil (2005) that most zakat payers and potential zakat payers were doubtful about the credibility of zakat practitioners. Due to this, some may choose to pay zakat informally or even not pay zakat although they should. All these issues explain the perceptions of zakat payers, beneficiaries and the Muslim public.

2.1 Zakat Institutions and Accountability

Zakat institutions which uphold the role of zakat are bound under two types of accountability as illustrated in Figure 1. The primary accountability is to Allah swt. Zakat institutions have to ensure their operations, management and activities are in compliance with Shari'ah. In addition, they have to fulfil the Maqasid al-Shari'ah (objectives of Shari'ah). In order to be accountable at all times, zakat institutions should have a committee which can be a filter or checker of Shari'ah rule. For example, Majlis Ugama Islam dan Adat Resam Melayu Pahang (MUIP) has a Syura committee and Majlis Fatwa for the supervisory role. Their functions should be broadened and professionalised, similar to the functions of an audit committee.

Figure 1: Zakat Institutions Accountability Framework



(Adapted from Ram, Norazita & Norfaiezah, 2014)

The secondary accountability is to zakat institution stakeholders. Zakat payers as 'donors' or fund providers will normally ask for financial information (Cordery & Morley, 2005) as well as non-financial information such as the performance of zakat institutions. Zakat institutions need to inform zakat payers whether they have fulfilled the objective of zakat as per the zakat payers' wishes. Therefore, information about the programmes organised by zakat institutions is also important to zakat payers.

Zakat institutions are organisations that uphold the objectives of the zakat system. They need to have appropriate management practices and observe accountability and transparency to their stakeholders. According to Hameed (2000), the objective of zakat institutions is to aid Muslims in discharging their religious financial obligation and fulfilling their amanah. Therefore, this religious organisation is bound by the Islamic accountability framework, which encompasses the relationship between the Real Owner, Allah swt, and mankind, the zakat board, zakat payers, 8 beneficiaries or zakat asnaf, government and Muslim public.

The main objective of zakat institutions is to achieve al-Falah, which means prosperity or success in the world and the hereafter rather than maximising one's self-interest. These institutions collect zakat from stakeholders to distribute mainly to the needy (asnaf faqir and miskin). They are accountable for managing the fund appropriately and distributing it to the people who need the fund. Furthermore, they are responsible for reporting the flow of funds to the stakeholders. In their relationship with mankind (hablunminannas), zakat institutions need to provide the best services in managing the funds for the benefit of the zakat payers and beneficiaries, to give satisfaction, instil confidence and show their credibility.

2.2 Financial Management and Accountability

In zakat institutions, financial management has become a basic element in promoting

and supporting the good performance of the institutions. As part of accounting, it is one of the means to discharge accountability (Ihsan & Adnan, 2009) of zakat institutions to their stakeholders, zakat payers, zakat asnaf, the Muslim public and, most importantly, Allah who is the Real Owner of Wealth. The concept of muhasabah encourages continuous improvements in performance. Therefore, a benchmark is a useful tool to help zakat institutions revise their own activities, controls and processes.

The UNDP (1996) classified accountability into four levels: managerial accountability, fiscal accountability, programme accountability and individual accountability. These classifications are mainly to describe accountability in the public sector. Akhidime (2012), Khan (1985) and Othman et al. (2007) tested at least three of the four levels in their studies. In the Third Assembly of ASOSAI (1985) in Tokyo, Khan (1985) deliberated on the independent and effective use of audit in promoting government accountability. He used three levels of accountability (managerial accountability, fiscal accountability and programme accountability) which were identified in the 7th Congress of INTOSAI in 1971. Othman et al. (2007) also tested the three levels of accountability and applied them in respect of financial management in the Malaysian public sector. Alkhidime (2012), on the other hand, integrated all four levels of accountability in his study on public financial management in Nigeria.

To explain further, managerial accountability refers to the answerability of management for its use of the zakat fund. The zakat management must be accountable by efficiently and effectively using the resources and avoiding any waste. Fiscal accountability means avoiding corruption and any misleading transactions pertaining to zakat money. On the other hand, programme accountability refers to the effectiveness of programmes organised by zakat institutions to achieve the zakat objectives, while individual accountability relates to the qualities projected by an individual such as honesty, integrity and trust. Thus, these classifications are appropriate to further explain the accountability of zakat institutions in Malaysia.

It should be noted that in terms of fiscal accountability, four measures are involved – adherence to applicable regulations, consistency with good accounting principles, accuracy and fairness of reports, and the reality and legitimacy of transactions. For managerial accountability, three measures are covered, which are the competency of information, operational performance and contribution to objectives. Programme accountability covers three areas which are benefits, impact and sustainability of programmes organised. Lastly, individual accountability measures the commitment, honesty, integrity and transparency of individuals in the organisations.

3.0 Data and Methodology

A quantitative method was used to measure both the current implementation of financial management practices (FMPs) and performance of zakat institutions. This study encompassed 14 zakat institutions with 140 of their employees and 140 customers consisting of zakat payers, the asnaf and other stakeholders. Data were collected mainly using e-mailed questionnaires, which were also the primary data, using binomial and dichotomous scale.

To fulfil research objectives 1 and 2, data from Questionnaire 1 (Q1) were required. For that, the primary data were the main source of information. For research objective 3, data were derived from the financial performance index (FPI), customer satisfaction index (CSI) and employee satisfaction index (ESI). The FPI data were gained directly from primary sources – the questionnaires, and secondary sources such as annual reports, websites and bulletins. On the other hand, research objective 4 was met through the combination of data in Questionnaires 1, 2 and 3.

In order to achieve objectives 1 and 2, Q1 was developed based on secondary data and various research papers on financial management such as those by Bowrin (2004), Duncan, Flesher and Stocks (1999), Hareed (2008), Okello-Obura and Kigongon-Bukenya (2008), and Siraj et al. (2007). Q1 consists of 7 parts. Part 1 covers the background of zakat institutions while Parts 2 to 7 cover all six FMPs. The questionnaire was distributed to all zakat institutions in the 14 states and answered by the high-level managers or finance managers. It examined existence, occurrence and compliance in 6 management areas.

These six management areas were adopted from the Financial Management Accountability Index (FMAI) proposed by the National Audit Department (NAD), which was promoted in the study of Bakar and Ismail (2011). This study chose to adopt the FMAI as it has been used in ministries and state governments since 2008. The FMAI has been a tool to prevent mismanagement and corruption within organisations. It also provides a competitive environment among all organisations to improve their financial management practices. The FMAI was deemed suitable as it could indicate compliance test as well.

There are 9 elements in the FMAI but this study adopted only six of them, which are organisational management, financial control (receipt), financial control of disbursements of fund, bank operation, asset management, budgetary control and financial reporting. This is due to the nature of the other three areas which is unsuited to zakat institutions. In zakat institutions, management of loans is irrelevant as Shari'ah does not approve of zakat money being provided as a loan. Management of investments is also unnecessary as the money distributed is not expected to receive any return. Furthermore, management of trust funds, trust accounts and deposits too is unsuitable as the money from zakat payers is not a deposit in nature. Thus, only six areas were examined in this study. Accordingly, this study modified the FMAI scores as specified by the NAD as per Table 1 in order to reflect the same significant level of each element. Based on the data collected from Q1, the existence, occurrence and compliance in the FMP were calculated by application of good practice as 1 point and the non-application as 0 point. Then, the scores were converted to percentage.

Table 1: 'FMAI Scores' of Six Management Areas

FMAI Management areas (6 relevant areas)	Scores (%)
Organisational management	20/85*100=24
Zakat collection and other receipts	15/85*100=18
Zakat distribution and other expenditures	25/85*100=29
Assets management	15/85*100=18
Budgeting	5/85*100=6
Reporting	5/85*100=5
Total	85/85*100=100

In answering research objective 3, the evaluation of various performance measurements in zakat institutions, performance measures in three different perspectives were developed. 'Performance' encompassed three main measures – financial performance, employee performance and customer performance. Financial performance covered the efficiency, growth and coverage of zakat. Employee and customer performance reflected the satisfaction level of zakat institution employees and customers such as the zakat payer, zakat asnaf and other stakeholders. Thus, research objective 3 involves the construction of the FPI, CSI and ESI.

The FPI was adopted from Said et al. (2012). Initially, 9 measures were proposed to assess the financial performance of zakat institutions. However, in order to improve the comprehensiveness of the performance indicator, another two indices, index 5 and 11, were added to the 9 measures proposed by Said et al. (2012). The first additional index was the coverage of zakat system in 2012. It could be calculated by adding the total number of zakat payers and zakat asnaf, over the total number of Muslims in the state in 2012. The second additional index was the growth of zakat system coverage. The index compared the coverage for 2012 to that of the previous year, 2011. The 11 indices of the FPI are shown in Table 2.

Table 2: Financial Performance Index (FPI)

Measurement	Category	
Measure Collection 1 (MC1)		
Total zakat collection (2012)	EFFICIENCY of zakat collection	≥ good
Cost of employment for zakat Collection (2012)		≤ bad
Measure Collection 2 (MC2)		
Total administrative cost (2012)	EFFICIENCY of zakat collection	≥ bad
Total zakat collection (2012)		≤ good
Measure Collection 3 (MC3)		
Total zakat Collection (2012)	PERFORMANCE of zakat collection	≥ good
Budgeted zakat Collection (2012)		≤ bad
Measure distribution 1 (MD1)		
Total zakat distribution (2012)	PERFORMANCE of zakat distribution	≥ good
Total zakat collection (2012)		≤ bad

Measure Coverage 1 (MV1) – additional Total no. of zakat payer + Total no. of zakat asnaf (2012)	PERFORMANCE of zakat system coverage	≥ good ≤ bad
Total no. of Muslims in the state (2012)		
Measure Collection 4 (MC4) Total zakat Collection (2012)	PERFORMANCE of Individual 'Amil and other staff (collection)	≥ good ≤ bad
Number of employees (2012)		
Measure Distribution 2 (MD2) Number of asnaf (in assistance)	PERFORMANCE of zakat distribution	≥ good ≤ bad
Number of applications of assistance		
Measure Collection 5 (MC5) Total zakat collection (2012)	AVERAGE collection from individual Muslims	≥ good ≤ bad
Number of Muslims (2012)		
Measure Collection 6 (MC6) Zakat collection (2012) – zakat collection (2011)	GROWTH of zakat collection	≥ good ≤ bad
Zakat collection (2012)		
Measure Coverage 2 (MV2) Zakat payers (2012) – zakat payers (2011)	GROWTH of zakat coverage (collection)	≥ good ≤ bad
Zakat payers (2012)		
Measure Coverage 3 (MV3) - additional Compare ratio 5 to this function: Total no. zakat payer + Total no. zakat asnaf (2011)	GROWTH of zakat system coverage	≥ good ≤ bad
Total no. of Muslims in the state (2011)		

(Adapted from Said et. al., 2012)

Questionnaire 3 (Q3) comprised the CSI. Although the CSI was adopted from Said et al. (2012), the first item in the index had to be amended as the first element in Said et al. (2012) was not applicable to zakat institution customers. The ESI and CSI scores were calculated directly from the Likert scale and converted to percentage. The percentage of significance for each element in research objective 2 was distributed equally as illustrated in Table 3 and Table 4.

Table 3: Percentage in ESI

Elements	Percentage
Knowledge advancement	25%
Financial benefit	25%
Non-financial benefit	25%
Working environment	25%

However, in research objective 2, the allocated percentages were based on SERVQUAL ratio and the scores were in percentages. Subsequently, the same star rating level as management assessment was used. All three measures were star-rated, based on the percentage. Then,

the scores were compared by the average performance score among zakat institutions.

Table 4: Percentage of Significance in CSI

	Description of performance	Weight
Assurance	Inspire trust and confidence	11%
Reliability	Performance of service in a dependable and accurate manner	32%
Tangible	Availability and appearance of facilities and personnel	22%
Empathy	Willingness of staff to understand the needs of customers	19%
Responsiveness	Willingness of the staff to assist customers and provide prompt service	16%

After the three questionnaires and FPI were designed, soft copies of Q1 and FPI were e-mailed to all 14 zakat institutions. Q2 and Q3 were distributed to 140 employees of zakat institutions, zakat payers and the asnaf. After a long period of data collection, the response rate for Q1 was found to be 93% and 13 of 14 zakat institutions had responded to the questionnaire. Q2 and Q3 obtained a response rate of 51.4% (72 respondents out of 140) and 80% (112 respondents out of 140) respectively.

In analysing the data, inferential statistics was employed in order to determine whether there was any relationship between the FMP and the FPI. In order to answer the question, a combination of bivariate correlation and Pearson correlation was employed. Bivariate correlation tested the relationship between two variables, in this case the FMP and the FPI, to determine whether an increase in the FMP would lead to an increase in the FPI or an increase in the FMP would lead to a decrease in the FPI or vice versa. Thus, two questions were answered. First, was the relationship between the FMP and the FPI significant? The answer mainly depended on the p-values. The relationship was considered significant if the value was less than 0.05. A value which was more than 0.05 indicated the relationship stated above was not significant. The second question was whether the relationship was positive or negative. The answer was based on whether the p-values were positive or negative. A positive relationship would mean the FMP positively affected the FPI and vice versa.

4.0 Findings and Discussions

4.1 Financial Management Practices (FMPs)

Tables 5 and 6 demonstrate the overall scores for the 6 FMPs. Table 6 shows that zakat institution practices scored 90.90% in distribution and disbursement, which was the highest score. In contrast, reporting scored only 61.06%, which was the lowest of the management areas. The study found that in all 6 FMPs, zakat distribution and disbursement, zakat receipts and collections, and asset management had the highest scores. This can be seen in the top

three rankings in Table 6. The higher the score, the better the practice of zakat institutions. Thus, it can be concluded that these three FMPs are considered significant to zakat institutions' perspectives. These zakat institutions tend to have better practices, particularly in financial management areas.

Referring to the star rating scale, zakat institutions applied 'excellent' practices in receipts and collection, and disbursement and distributions (average mean = 90.90 and 90.74 respectively) and 'good' practices in asset management, budgeting and organisational management practices (average mean = 80.54, 73.65, 71.63 respectively). The rationale behind these results is that these practices were of the greatest concern to zakat institution stakeholders. The Muslim public often asks the management how the collection money is distributed and handled. In addition, the way their assets are managed too is of strong concern to the Muslim public. This is reflected in the majority of literature on zakat institutions, which is studies of the performance of collection and the distribution of zakat money. Prior studies also supported that receipts, disbursements and asset management, particularly money, seriously require internal control. Weak practices make the organisation vulnerable to fraud, mismanagement, waste and abuse (General Accounting Office of United States, 1981; McCoy, 2010). Furthermore, zakat institutions showed their accountability by enhancing their reporting on collection and distribution.

Bakar and Ismail (2011) reported that the allocation of percentages provided by the Financial Management Accountability Index (FMAI) led to different conclusions. The FMAI shows organisational management had the highest significance. However, zakat institutions came second to last in all the practices. This may indicate two possible situations. First, organisational management may be a less significant area for zakat institutions in Malaysia as the FMAI was prepared by the National Audit Department (NAD) for general organisations in Malaysia. It has also been in practice since 2012. Second, zakat institutions in Malaysia are not implementing these organisational management practices sufficiently well. According to the percentages determined by the NAD, 24% was allocated for organisational management. It means that from the NAD's point of view, organisational management is among the most significant areas in financial management. However, the FMP score for the area was among the least significant. Therefore, zakat institutions may view this result as a potential gap to be closed in the future.

Based on the data collected from Q1, the existence, occurrence and compliance in FMPs were calculated by application of good practice receiving 1 point and non-application 0 point. Then, the scores were converted to percentage. According to the overall scores of the FMPs in Table 5, the results implied that zakat institutions in Malaysia are fulfilling their accountability in a 'good' manner. However, reporting is inadequate, and not always 'satisfactorily' done. This is consistent with the study by Raedah, Siti Normala and Sherliza (2013) which highlighted the gap in disclosure improvement in Malaysian zakat institutions. This shows the lack of transparency in the reporting of standard practices in zakat institutions. This could be due to the lack of regulation and supervision in these accounting institutions. After all, zakat

institutions had to minimise the disclosure gaps since this factor had a significant influence on the zakat payers' trust (Samargandi, Tajularifin & Ghani, 2018).

This shows that zakat institutions always do their best to fulfil primary and secondary accountability by distributing and collecting zakat funds according to Shari'ah. However, due to limited resources such as staff and management knowledge, there was room for improvement for secondary accountability, particularly in the area of reporting. Through analysis of the level of accountability, zakat institutions seemed to have a 'good' level of fiscal accountability as adherence to applicable regulations, consistency with good accounting principles, the accuracy and fairness of the reports, and the reality and legitimacy of transactions were always adequately observed. These are reflected in the scores gained from this FMP evaluation.

Table 5: Six Financial Management Practices Scores Ranking

		Six Financial Management Practices					Average Score (%)	Rank	
States	OM	RT	DB	AM	BG	RPT			
	24%	18%	29%	18%	6%	5%			
1	Perlis	24.00	16.47	26.10	14.82	4.42	3.23	89.05	2
2	Kedah	17.25	16.47	27.07	15.88	4.42	3.96	85.05	4
3	Kelantan	18.75	17.39	24.65	14.82	4.74	3.33	83.68	6
4	Perak	23.25	16.17	27.07	16.41	4.11	3.23	90.23	1
5	Terengganu	18.00	16.78	28.52	14.29	3.47	3.13	84.19	5
6	Johor	18.00	16.47	28.52	14.82	5.05	3.33	86.20	3
7	Pahang	16.50	13.12	24.65	15.35	4.74	3.33	77.69	12
8	Pulau Pinang	15.00	17.08	27.55	12.71	3.47	3.13	78.94	9
9	Selangor	NA	NA	NA	NA	NA	NA	NA	NA
10	Wilayah Persekutuan	13.50	16.78	27.55	12.71	5.37	2.60	78.51	11
11	Sabah	14.25	16.78	27.55	12.71	5.37	2.71	79.36	8
12	Sarawak	17.25	16.17	28.03	14.29	4.74	3.13	83.61	7
13	Melaka	13.50	16.78	18.85	14.82	3.16	1.88	68.99	13
14	Negeri Sembilan	14.25	15.86	26.58	14.82	3.16	2.71	78.62	10
	SCORE, N=13 (%)	71.63	90.74	90.90	80.54	73.65	61.06	<u>81.86</u>	
	RANK	5	2	1	3	4	6		

Note: OM=organisational management; RT=receipt and collection; DB=distribution and disbursement; AM=asset management; BG=budgeting; RPT=reporting

Table 6: Six Financial Management Practices Scores and Star Ratings

No.	Financial Management Practices	Scores	Ratings	Star
1	Organisational management	72%	Good	***
2	Receipts and collections	90.74%	Excellent	****
3	Disbursements and distributions	90.90%	Excellent	****
4	Asset management	81%	Good	***
5	Budgeting	74%	Good	***
6	Reporting	61%	Satisfactory	**

Based on the data collected in Q1, zakat institutions in Perak showed the highest marks in FMPs, and Melaka had the lowest scores. However, this study focused on areas of improvement among the following six areas:

Organisational Management

According to Table 6, zakat institutions in Malaysia practised 'good' organisational management. All these institutions basically had an appropriate organisation chart, delegation of power, a written Work Procedure Manual and Desk Files. However, some did not maintain a computerised accounting system. Internal and external audit systems were not delegated appropriately to independent parties such as external auditors. The existence of basic organisational management indicates that zakat institutions in Malaysia had structured internal procedures which enabled their staff to do their jobs in the best manner.

Receipts and Collections

According to Table 6, practices relating to receipts and collections implemented in zakat institutions in Malaysia were 'excellent'. All procedures were carried out appropriately. However, due to the shortage of staff, segregation of duties and responsibility rotation did not obtain perfect marks. Some zakat institutions used a corporate approach as one of the ways to solve this issue. Personnel were employed under the professionalism scheme of 'amil. There are many differences between a professional 'amil and a traditional 'amil. A professional 'amil is more proactive and innovative in terms of his approaches (Wahid & Kader, 2010). In addition, he is equipped with the required Shari'ah and accounting knowledge and skills. He has to undergo appropriate training and is bound by appropriate human capital and knowledge advancement planning (Obaidullah, 2012). Unlike the professional 'amil, a traditional 'amil is appointed informally. He only has a religious background and has not undergone proper training and is not bound to human capital and knowledge advancement plans. Furthermore, he is employed under sub-standard human resource planning.

By appropriate management and planning of human resources, all personnel can be optimally utilised and employment can be planned under competitive employment schemes. For example, in Melaka, the Majlis Agama Islam Melaka (MAIM) has its own professional 'amil and supporting 'amil as the subordinate to enhance proper administration of collecting zakat

(MAIM, 2014). Similarly, in history, one of the success factors in the golden age of Caliph Umar Abdul Aziz was that zakat was controlled, collected and disbursed by trustworthy and professional 'amil (Ayuniyyah, 2011).

Disbursements and Distributions

The average score for disbursements and distributions shows that zakat institutions had 'excellent' practices. They managed to operate with full accountability. All documented procedures, segregation of duties and processes were carried out in the best way. Zakat institutions as holistic institutions are accountable for managing zakat money in the best way. Appropriate distribution of zakat money is one of the ways to show their accountability to Allah and to the zakat beneficiaries. As the distribution of zakat money has among the highest potential risks of mismanagement, the majority of zakat institutions had excellent FMP. Thus, they could employ best practices to prevent any irregularities.

Asset Management

Zakat institutions in Malaysia practised 'good' asset management. All of them secured their assets in appropriate places and maintained them according to schedule. All assets were labelled with the names of the institutions. However, upon disposal of the assets, some zakat institutions did not appropriately report it and investigations were not conducted by a specific committee. Again, this explains the low score of reporting. Zakat institutions should make it transparent how they recognised an asset to avoid the misperception that the zakat money was used to buy assets. This also highlights the importance of unique accounting standards for zakat institutions.

Budgeting

'Good' budgeting practices by zakat institutions in Malaysia suggest that the organisations planned and managed zakat funds with full awareness of accountability to Allah. All the zakat institutions prepared their annual budget and made a comparison between the actual and budgeted amounts. As the accounting regulations varied, monitoring budget variance and scope of budgets also varied. The reporting of budgets varied, therefore some zakat institutions did not show their secondary accountability towards their stakeholders. Some zakat institutions considered budgeting as internal information only.

Reporting

The average score for reporting practices shows the performance by zakat institutions to be 'satisfactory'. All zakat institutions satisfactorily discharged their secondary accountability by providing annual reports on income and expenditure, balance sheets, cash flow and the principal activities. They had a particular standard that regulated their accounting practices, such as the Malaysian Financial Reporting Standards (MFRS) and Treasury Instruction (TI).

They were also accountable for making known their mission, activities and key members of staff on their corporate websites. On the other hand, the lack of standardisation of regulations was the reason for several differences. Accounting standards and accounting requirements varied according to the style of the institution. For example, not all zakat institutions disclosed their budget, had their annual report audited by independent auditors and generated reports in the same period.

4.2 Performance of Zakat Institutions

Financial Performance Index (FPI)

Eleven (11) financial performance indicators, adopted from Said et al. (2012), were assessed in zakat institutions using secondary data – annual reports, bulletins, websites and others. The FPI generally assessed 3 financial performance areas, which are zakat collection, zakat distribution and zakat system coverage. The results of the financial performance index, presented in Table 7, show 'good' zakat distribution and 'satisfactory' zakat collection. However, zakat system coverage was 'not satisfactory'. As shown in Table 7, the distribution of zakat monies was 'good' and acceptable. Good distribution indicates that the zakat institutions in Malaysia were managing zakat funds with full accountability. This is shown by their commitment to always discharge their accountability towards Allah and Muslims. The zakat institutions always tried their best to allocate zakat monies fairly and appropriately to the 8 categories of asnaf. As required by Shari'ah, zakat funds collected should be distributed in the same year. The result shows 'good' distribution of the funds.

Table 7: FPI Star Rating – Ranking

Performance Areas	Score	Star Rating	Rank	Level
Zakat collection	50.16	**	2	Satisfactory
Zakat distribution	70.71	***	1	Good
Zakat system coverage	25.14	*	3	Not Satisfactory

This result is quite surprising as it contradicts the reports from the public and prior researches. There were reports in Selangor about the mismanagement of zakat distributions which gave rise to the intervention of political parties (Utusan Online, 25 July 2015). On social media, there was an open letter from a member of the public to the high authority of zakat, questioning the efficiency of zakat in solving social problems (The Malaysian Insider, 19 December 2014). Kamil (2005) found that most zakat payers doubted the credibility of zakat institutions in managing the zakat fund.

Furthermore, many prior studies such as those by Abdul Halim et al. (2005) and Ahmad and Ma'in (2014) discovered a lack of efficiency in the distribution. In contrast, this research has an opposite result, with zakat institutions actually having good distributions of zakat to the 8 categories of asnaf. Therefore, further research is required to understand the reasons behind the public critics and dissatisfaction with zakat institutions' distribution of zakat money. Perhaps

zakat money has an indirect impact on the economy of the Muslim society as a whole.

Zakat collection was ‘satisfactory’ but there is still potential for improvement. For example, the efficiency of zakat collection as compared to the cost of employing the ‘amil should be optimised. Every member of staff should have his or her targets and KPIs aligned with the aim of the zakat institution. Moreover, the increment rate for zakat collections should be improved. On closer scrutiny, the satisfactory result may be due to this study covering all zakat institutions in Malaysia. It is understood that zakat institutions in urban states such as Wilayah Persekutuan are more efficient and effective in zakat collection, but for less urban states such as Perak, Pahang and Kelantan, a lot of improvement strategies have to be taken into consideration.

Employee Satisfaction Index (ESI)

Four elements of the ESI were tested, namely knowledge advancement, financial benefit, non-financial benefit and work environment, which zakat institutions offered their employees. The first element was knowledge advancement opportunities offered to the employees of zakat institutions. This was to evaluate employee satisfaction with the knowledge advancement opportunities available to them. As shown in Table 8, on average, knowledge advancement was ranked as ‘good’. The employees were least satisfied (compared to other measures) with offers of scholarship or loan in order to further their studies. They had greater satisfaction (good) with supervision, feedback, training and development in the zakat institutions and personal knowledge development.

Table 8: Overall Performance in ESI

	Knowledge Advancement	Financial Benefit	Non-financial Benefit	Working Environment	Total
Percentage (Star)	77.10 (***)	79.74 (***)	75.07 (***)	81.03 (***)	78.25 (***)
Level	Good	Good	Good	Good	Good

The second element was financial benefit offered to the employees of zakat institutions. This was to evaluate employee satisfaction with the financial benefits offered such as bonus, job promotion as well as various loans. On average, all zakat institutions gained a ‘good’ score as shown in Table 8. This indicates a good level of satisfaction with opportunities for job promotion and career advancement, loans and benefits, bonus and overtime payment. The third element was non-financial benefits offered to the employees. This was to evaluate employee satisfaction with the non-financial benefits offered, such as the provision of benefits to support family needs, understanding benefit options, comparability and favourable benefits compared to other organisations’ and staff assistance programmes. On average, all zakat

institutions gained a 'good' score. This indicates a 'good' level of satisfaction with the benefits offered to fulfil family needs and understanding of other benefit options and staff assistance programmes.

The last element was the work environment of the employees. This was to evaluate employee satisfaction with the existing work environment (i.e. inter-departmental cooperation, appropriate and organised structure, clear assignment of responsibilities, facilities, safety, teamwork and fairness in treatment of all employees). On average, employee satisfaction with the work environment was 'good'.

Overall, the ESI shows a 'good' level of satisfaction among employees. This indicates that zakat institutions in Malaysia had good practices in providing benefit plans, facilities and work environment to their employees. This is consistent with the commandment of Allah to treat employees fairly and not to be a tyrant. Employees should be paid their salaries before the sweat on their brows had dried. This is to show primary accountability to Allah, as the concern is not only to manage funds, but also to treat others well. These are the roles of the vicegerents of Allah.

Customer Satisfaction Index (CSI)

In the CSI, five major elements were evaluated, namely assurance, reliability, tangibles, empathy and responsiveness. The first element, assurance, evaluated performance in inspiring trust in and showing confidence to customers. On average, as shown in Table 9, all zakat institutions were more than satisfactory. Kelantan had a lower score for customer satisfaction and trust in appropriate management of the zakat fund. Selangor too obtained a lower score, which shows that the customers lacked trust in zakat institutions helping them and solving their problems. In Sabah, all measures obtained less than 3.0 mean scores. This suggested a low assurance in the services provided to customers.

Table 9: Overall Performance in CSI

	Assurance	Reliability	Tangible	Empathy	Responsiveness	Total
Percentage (Star)	83.57 (***)	81.37 (***)	78.58 (***)	81.20 (***)	80.19 (***)	80.76 (***)
Level	Good	Good	Good	Good	Good	Good

The second element was reliability. This was to evaluate the reliability of services provided and whether the services were delivered in a dependable and accurate manner. On average, all zakat institutions gained more than 69%. Kelantan had a lower score for reliability in meeting deadlines, providing services as well as poor provision of value-added services. Selangor obtained a low score in customer satisfaction with first time services and customer friendliness.

Wilayah Persekutuan's score illustrated poor access to the network by customers. In Sabah, the result portrayed a low level of reliability in the services provided to customers.

The third element was tangibles. This was to evaluate the interior comfort and physical facilities such as parking space, convenience in terms of location, counters in operation and facilities for the disabled. On average, all zakat institutions scored more than 66%. Kedah, Selangor and Sabah received among the lowest scores in this element (73.67%, 68.88% and 66.5% respectively). Selangor had the lowest score for measuring accessibility and convenience in terms of the physical location of the office. Sabah obtained a low score, which shows that the office of the zakat institutions lacked interior comfort and physical facilities.

The fourth element was empathy. This was to evaluate the willingness of the staff to understand the needs of customers. On average, all zakat institutions scored more than 70.5%. The low scoring states were Kedah, Selangor and Sabah (77.5%, 73.13% and 70.5%). Kedah had the lowest score, indicating that fewer value-added services were provided such as photocopying service and filling in forms for customers or visitors. Wilayah Persekutuan had a low score, which shows that the staff lacked a courtesy when dealing with customers. Sabah scored low marks on confidentiality of customers' information and lack of value-added services in terms of financial and personal counselling.

The fifth element was responsiveness. This was to evaluate the willingness of the staff to assist customers and provide prompt services responsibly. On average, all zakat institutions obtained more than 65%. Selangor and Sabah were among the lowest scorers in this element (66.11%, 71.53%). Sabah received low marks for efficiency of counter services and an inadequate number of staff available.

Overall Performance of Zakat Institutions

According to Table 10, the overall performance for zakat institutions in Malaysia was only at a 'satisfactory' level. The ESI and CSI performance were 'good', but the FPI was 'not satisfactory'. This indicates that the zakat institutions have to improve their performance to achieve better results. States receiving a three-star (***) rating such as Perlis and Kelantan had high religious awareness. Perlis had the advantage of a small Muslim population which was easy to manage. Pulau Pinang and the Wilayah Persekutuan, which were among the most developed states in Malaysia, were expected to be more advanced in terms of technology and their collection and distribution were higher compared to the less developed states. The Muslim populations in these states were also highly aware of the obligation of zakat and they were more demanding with regard to the accountability and transparency of zakat management. Sabah and Sarawak, on the other hand, have a relatively small Muslim population and they could manage the zakat administration under their own jurisdictions.

Table 10: Overall Performance Star Rating

Country	Mean			Total	Star Rating	Level
	FPI	ESI	CSI			
Perlis	76.49	83.33	87.40	82.41	***	Good
Kedah	32.73	74.90	78.72	62.11	**	Satisfactory
Kelantan	37.72	100.00	78.76	72.16	***	Good
Perak	40.09	83.20	80.37	67.89	**	Satisfactory
Terengganu	32.42	60.12	81.83	58.12	**	Satisfactory
Johor	40.58	75.94	83.88	66.80	**	Satisfactory
Pahang	27.68	62.14	77.56	55.79	**	Satisfactory
Pulau Pinang	74.85	79.22	79.37	77.81	***	Good
Selangor	45.44	0.00	72.21	58.82	**	Satisfactory
Wilayah Persekutuan	63.80	68.75	78.98	70.51	***	Good
Sabah	63.21	81.77	68.27	71.08	***	Good
Sarawak	43.43	82.29	89.13	71.62	***	Good
Melaka	30.87	88.80	88.59	69.42	**	Satisfactory
Negeri Sembilan	41.35	76.82	85.62	67.93	**	Satisfactory
Total Average	46.48	78.25	80.76	68.03	**	Satisfactory
Star Rating	*	***	***	**		
Level	Not Satisfactory	Good	Good	Satisfactory		

Relationship Between FMP and FPI

With reference to Table 11, the Pearson correlation shows an insignificant relationship between these two variables as the value was not close to -1 or 1. As a result, this study concludes that there was no significant relationship between the FMP and the financial performance of zakat institutions in Malaysia. This may be the reason why zakat institutions did not focus greatly on the FMP.

Table 11: Correlation Test of Association

		FMP	FPI
FMP	Pearson Correlation	1	.132
	Sig. (2-tailed)		.667
	N	13	13

Table 12: Pearson Correlation Test of Association

		FPI									
		1	2	3	4	5	6	8	9	10	11
FMPOM	Pearson Correlation	.680*	.111	.400	-.384	.145	-.259	.014	.112	-.088	-.057
	Sig. (2-tailed)	.044	.760	.286	.195	.710	.501	.962	.704	.798	.860
	N	9	10	9	13	9	9	14	14	11	12
FMPRC	Pearson Correlation	.239	.342	.245	-.076	.203	.016	.014	.153	.073	.109
	Sig. (2-tailed)	.536	.334	.525	.806	.600	.968	.962	.600	.831	.736
	N	9	10	9	13	9	9	14	14	11	12
FMPDB	Pearson Correlation	-.252	.233	.173	-.340	.284	.028	.023	.148	.062	.099
	Sig. (2-tailed)	.512	.517	.656	.256	.459	.944	.937	.614	.857	.760
	N	9	10	9	13	9	9	14	14	11	12
FMPAM	Pearson Correlation	.149	.036	.193	-.131	.047	-.163	-.105	-.051	-.143	-.046
	Sig. (2-tailed)	.703	.921	.618	.669	.905	.676	.722	.862	.674	.887
	N	9	10	9	13	9	9	14	14	11	12
FMPBG	Pearson Correlation	-.098	.168	.212	-.418	.159	.129	.123	.203	-.134	-.144
	Sig. (2-tailed)	.802	.643	.585	.155	.682	.742	.674	.487	.694	.656
	N	9	10	9	13	9	9	14	14	11	12
FMPRP	Pearson Correlation	.197	.026	.162	-.301	.175	-.182	-.096	-.071	.021	.067
	Sig. (2-tailed)	.611	.944	.678	.318	.653	.639	.743	.810	.951	.836
	N	9	10	9	13	9	9	14	14	11	12

The bivariate correlation test was also done for each indicator and element of the FPI and FMP. The result shows that the organisational management score and the FPI1 (efficiency of

zakat collection by staff employed) had a significant relationship as the value of significance (2-tailed) was less than 0.05. This indicates that excellent organisational management was related closely to the efficiency of staff in collecting zakat. It is parallel with the measures proposed in the FMAI, that human resource management and delegation of tasks were included under items evaluated in organisational management. This could be a possible reason for the relationship between these two variables.

Furthermore, the FPI4, which represents distribution over collection, had a negative relationship with all FMPs. Although this relationship was not significant, the total collection for the year had an influence on or was influenced by the FMP. Ideally, better management would lead to better and sustainable performance. However, in the current environment, there is still a long way to go to ensure that improvement in the management will lead to better performance, due to the challenges.

5.0 Conclusion and Recommendations

To sum up, the study found that on average, all the zakat institutions implemented a 'good level' of financial management practices (FMPs). Collection and distribution practices were accounted to be 'excellent' in the assessment. This indicates a high significance of the FMP in zakat institutions. These results prove that zakat institutions in Malaysia did perform their obligations with full responsibility and accountability to Allah. They continuously try to improve their collection every year and distribute it to all recognised asnaf. It could be seen in their reports that the amount of collection increased annually. Furthermore, many activities and innovative actions were initiated by zakat institutions throughout Malaysia, which enabled the zakat monies to reach the asnaf. The matter of least important from the zakat institutions' perspective was reporting. In terms of fulfilling the needs of information to their stakeholders, there were many areas which could be improved.

This study found that overall, the performance of zakat institutions was 'good'. The employee satisfaction index (ESI) and customer satisfaction index (CSI) had 'good' results. However, the financial performance index (FPI) was 'not satisfactory'. This proves that there are many potential areas for improvement. The FPI shows that the more developed states were expected to be more advanced in terms of technology. This factor could be significant in ensuring the effectiveness and efficiencies in zakat administration. This supports past research by Wahab, Zainol and Rahman (2012). Furthermore, the Muslim populations in more developed states were more aware of zakat administration and their demands for accountability and transparency were higher. Small Muslim populations can also be an advantage for states such as Perlis, Sabah and Sarawak as this made it easier for the zakat institutions to manage the zakat monies among Muslims.

Thirdly, this study reveals that in general, there were positive correlations between financial management practices and financial performance. Specifically, organisational management had a significant relationship with the efficiency of employment cost. It shows that organisational

management had a significant relationship with the efficiencies of cost of employment in raising zakat fund.

In recent years, many researchers have taken an interest in these research areas. Nevertheless, there remain many potential areas for future research. Such academic studies will help religious based and/or non-profit organisations to upgrade their practices and become more competitive and reputable in the eyes of the public. This would also enhance the accountability and integrity of religious-based organisations in the public eye as historical events and more recent events in churches have created a negative impression of religious-based organisations. Through this study, the levels of financial management practices and financial performance of zakat institutions in Malaysia have been revealed.

In the opinion of the researcher, further study on the impact of the 'best management benchmark' may extend this study. Furthermore, continuous performance measurement as proposed by Mohd Noor et al. (2015) can be used as an assessment measurement framework for zakat institutions in the future. A recommendation to the practitioners, particularly zakat institution executives in the front line, is to investigate further the main factors that hinder Muslims from seeking help from zakat institutions. It would also be useful to conduct a survey on the extent to which zakat institutions assist the Muslim asnaf to improve their poor and difficult lives to become more independent, and perhaps also to become zakat payers. Ultimately, the relationship between financial management practices and financial performance should progress towards having competitive zakat institutions in Malaysia. All stakeholders should put pressure on zakat institutions for uniform reporting of financial performance and assessment of their financial management practices. By doing this, future researchers may find new areas to demonstrate better management which would lead to better performance.

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