MISAPPROPRIATION OF FUNDS: BRINGING PUBLIC TRUST ON TAHFIZ INSTITUTIONS VIA EFFECTIVE FINANCIAL ACCOUNTING AND REPORTING PRACTICES

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Abstract: Tahfiz Institutions (TIs) are Islamic institutions that aim to produce students who are able to memorize the Al-Quran, practice the knowledge of Islam in their life, have good attitude and abide by the rules and regulations in Al-Quran and As-Sunnah. Nowadays TIs received wider acceptance as an Islamic education centre and has received encouraging responses from society. More than 91% of the TIs in Malaysia are privately owned either by foundations, non-government organisations or individuals. Their sources of funds usually come from tuition and school fees as well as donations and sponsorship by the public at large, individuals, non-government organisations (NGOs), Islamic Council, private and public companies and organisations. Regrettably, despite its function to inculcate moral values among students, misappropriation of funds among TIs management themselves had been reported and the possibility of more being unreported cannot be denied as well. The majority of the significant factors underlying the aforementioned issues are poor financial management and mismanagement of funds. Stakeholder theory can be used to explain the concept of accountability for TIs because they are accountable to a variety of stakeholders such as regulators, donors, parents, and students. The focus of this conceptual paper is to identify appropriate financial accounting and reporting practices that may be used by TIs in order to be held equitably accountable for the funds that they have received. The presence of financial control practices can ensure financial integrity of TIs and disregard the bad claims being reported earlier. By effectively implementing financial accounting and reporting practices and
disclosing information about its fund management on a regular basis, it will boost transparency and instil public confidence in the organisation to solicit additional donations in the future.

Keywords: Accounting, Misappropriation, Reporting, Stakeholders, Tahfiz Institutions

Introduction

Tahfiz Institutions (TIs) are set up to offer Islamic education that focuses on teaching students to memorise and recite the whole Al-Quran (Bani, Jaaffar, Katan & Mohd Noor, 2017). They are responsible for producing students referred to as huffaz who are able to memorize the Al-Quran, practice the knowledge of Islam in their life, have good attitude and abide by the rules and regulations in Al-Quran and As-Sunnah (Bani, Katan, Mohd Noor and Abdul Fatah, 2014). Although Islamic education has been practised for many years, the establishment of TIs as a formal Islamic education institution was initiated by Malaysia's First Prime Minister, Tunku Abdul Rahman Putra Al-Haj, as early as 1966. (Che Hassan, Mohd Fakhruddin, Mohd Ayub, Abd Mutalib & Wan Jaafar, 2015). Beginning on March 1, 1966, Ma'ahad Tahfiz Quran wal Qiraat was set up and Tahfiz classes were carried out at National Mosque Lecture Hall with eight pioneering students selected from various states in Malaysia.

Nowadays, TIs are more widely accepted as Islamic education centres as a result of Muslim parents' increased awareness of the value of religious education (Ridza, Jalil, Sipan, & Nukman, 2017). In response to the aspiration of mainstream Islamic education, the establishment of Tahfiz institutions in Malaysia has received a positive reaction from society, enabling the generation of high-quality huffaz and contributing to national development (Anas, Ahmad, Mohd Husain, Che Ahmad and Yaacob, 2020).

TIs are classified as religious non-profit organisations (RNPOs) (Ridza et al., 2017) with over 91% of Tahfiz institutions in Malaysia being privately owned (Bani et al., 2014) by foundation, non-government organisations and individuals (Bani et al., 2014). They frequently function independently of the government or government linked agencies. Whereas Government-supported institutions are governed and regulated by the Ministry of Education (MOE). Due to the primary objective of establishing TIs is to benefit society in addition to making revenue, this organisation might be considered a social enterprise (Abdul Kadir & Mhd. Sarif, 2015).

Regrettably, despite its function to inculcate moral values among students, misappropriation of funds among Tis management themselves had been reported occasionally (Mohd Zaini, 2019). Even though the occurrence seldom happened but it is considered to be a very serious issue since it had breached public trust on the management of Tis once it happened. Furthermore, over the years, tahfiz schools had also been involved in many tragedies and shameful incidents, including cases of death by fire, bullying, sexual abuses, mass hysteria, severe punishments of students and mismanagement of schools (Al Kut, 2017). Other issues include lack of security measures, insufficient water supply, electricity and reading materials, squalor in dorms, kitchens and a lack of food hygiene, poor transportation system, bad financial management due to a lack of funds, a lack of administrative knowledge among mudir (head of school) and low standards of teaching and learning all contribute to this (Al Kut, 2017).

Most of the significant factors that are rooted to the above problems are bad financial management as well as mismanagement of funds. Intrinsically, the possibility of misappropriation of funds cannot simply be ignored as well. There are some TIs that do not have a formal money management system and when asked where the money is used, they fail to prove that they have a proper record system (Dzakaria, Bakar & Dorlo, 2020). Moreover,
poor and insufficient infrastructure and facilities, unstandardized and inappropriate management, accountability issues in crowd fundraising and donation, lack of financial resources are another demerit associated with TIs (Anas, Samori, Hamid, Zulkipi & Mohd Noor, 2019).

TI’s sources of funds usually come from tuition and school fees as well as donations and sponsorship by the public at large, individuals, non-government organisations (NGOs), State Islamic Council, private and public companies and organisations. Stakeholder theory can be used to explain the concept of accountability for TIs because they are accountable to a variety of stakeholders such as regulators, donors, parents, and students. Stakeholder theory has been widely used to discuss the corporate governance function and responsibility in modern business corporations incorporating conceptual, moral and financial values (Ibrahim & Samad, 2014).

This study focuses more on the possibility of TIs in providing accountability specifically to one of their stakeholders. The focus of this conceptual paper is to identify appropriate financial accounting and reporting practices that may be used by TIs in order to be held equitably accountable for the funds that they have received. The presence of financial control practices can ensure financial integrity of TIs in keeping the accountability to the client they served (Mahadi, Hiung & Noordin, 2019) and disregard the bad claims being reported earlier. By effectively implementing financial accounting and reporting practices and disclosing information about its fund management on a regular basis, it will boost transparency and instil public confidence in the organisation to solicit additional donations in the future.

**Literature Review**

In the literature review, four points will be discussed. The background of TIs is presented first, followed by accounting and reporting for Non-Profit Organisations (NPOs), then effective accounting and reporting for TIs and finally the importance of effective accounting in restoring public trust in TIs.

**Background of Tahfiz Institutions**

The demand for TIs is increasing as more parents recognise the advantages of building character, strengthening religious beliefs, and establishing excellent moral values in their children. Due to the increase awareness of Muslim parents regarding the importance of religious education, TIs, which focuses on memorising the Al-Quran and providing a place to broaden one's religious knowledge, has gained wider acceptance as an Islamic education centre (Ridza et al., 2017). According to Che Hassan et al., (2015), tahfiz education was initially conducted in “pondok”, a traditional religious school. Then in 1966, tahfiz was institutionalized by the government when Tunku Abdul Rahman Al-Haj Prince, first Prime Minister of Malaysia, announced the aspiration to set up an Institute for the Study of the Quran in Malaysia. Started on March 1, 1966, Ma’ahad Tahfiz Quran wal Qiraat was set up and tahfiz classes were carried out at National Mosque Lecture Hall with eight pioneering students selected from various states in Malaysia. Efforts to establish Ma’ahad Tahfiz were made to preserve and promote the religious faith among Muslims. Since then tahfiz centers have been opened in every state of Malaysia. In addition, tahfiz centers are also set up by private entities. Until 2019 there are 1,030 TIs and 200 Sekolah Pondok registered with Jabatan Agama Islam Malaysia (JAKIM) (Ahmad, 2019).

However, there is no specific standard for curriculum considering the TIs were established by private institutions or state-funded institutions. Tahfiz teaching and learning development in most states of Malaysia practice with their own course based on the emergence of a private
tahfiz or government tahfiz institution (Ridza et al., 2017). The privately owned centers may be set up by an individual, public or private entity, as such they have different governance practices according to the founders’ norms. (Bani et al., 2017). Hence, the Government through the National Tahfiz Education Policy has drafted four curriculum modules for standardising the education system to be used by all tahfiz institutions (NST, 2017).

TIs are religious non-profit organisations that provide Islamic education that focuses on memorising the Al-Quran. Malaysia is unique due to the diversity of its citizens' races, cultures, and religions. As a result, this country has a variety of different types of registered non-profit organisations, one of which is a religious non-profit organisation (RNPO). As members of the RNPO, TIs require funding and resources to operate and accomplish their goals. (RNPOs) (Yusop, Mahmud, Sablic, Aziz Awang & Ghazalie (2020).

The Importance of Tahfiz Institutions
The role of TIs is becoming increasingly important in the Islamic Community, as it is no longer viewed solely as a place for memorising the Quran. Many Muslim parents believe that these institutions can help their children develop personalities, strengthen religious beliefs, and instil moral values. Tahfiz students are also expected to excel in their chosen professions. As a result, the goal of TIs is to produce tahfiz graduates who will contribute to the nation's human capital development (Yusop et al., 2020 & Hashim, Tamuri, & Jemali, 2013). This is consistent with the Malaysian government's 2018 National Education Tahfiz Policy, which aims to produce 125,000 tahfiz graduates with skills and knowledge in fields such as medicine, engineering, banking, and others by 2050 (Yusop et al., 2020).

The primary goal of establishing a tahfiz centre is to produce tahfiz graduates who are valuable human capital required for the nation's development (Hashim et al., 2013). On 16 April 1983, the certificate of eligibility produced by Darul Quran was recognised by the Public Service as equivalent to a diploma from MARA Institute of Technology in terms of the employability of tahfiz graduates (now known as UiTM). Darul Quran graduates can now be hired as civil servants as a result of this recognition. Darul Quran graduates are also accepted by local and international universities, where they can pursue further education in any field of their choice. As a result, tahfiz graduates have both religious knowledge and professional expertise (Bani et al., 2017).

For 2019 and 2020, the government has increased the overall allocation for TIs, pondok, and religious schools to RM100 million. Previously, these three institutions received RM80 million allocation in 2017, however this was decreased to RM75 million in 2018. The government makes efforts from time to time to ensure that the country's educational institutions, such as TIs, pondok, and religious schools, remain competitive, in line with the country's goal of elevating Islamic educational institutions in the face of the challenges of the Industrial Revolution 4.0. (Husain, 2020). Furthermore, as a result of the spread of Covid-19, the government has set aside RM40 million to help TIs with operating expenditures during the Movement Control Order (MCO) (Bernama, 2021). The allocation provided by the government shows how important TIs are in the Malaysian education system.

Source of Funding for Tahfiz Institutions
TIs required funds and resources to operate and achieve their objectives, (Yusop et al., 2020). It is critical for TIs to have a diverse range of income sources in order to sustain future educational development and to remain operational and educate students. According to Bani et al. (2014), individuals and businesses made countless contributions to TIs in the form of both
monetary and non-monetary commodities such as food, educational resources, health care, and social and physical support.

The funding sources for TIs were classified as internal and external. Internal sources of money are funds that originate within a TI, such as fees from students and profit from trading activities. Private TIs are primarily funded through tuition or school fees. According to Abdul Rahim, Aminurraasyid, and Mohd Farihal (2018), private tapfiz schools in Malaysia rely heavily on tuition fees to cover the school's management and administration costs. This is consistent with Dzakaria et al. (2020) which found that student fees should be used to pay school administration, including teacher salaries and utilities. Notwithstanding, TIs raised funds through entrepreneurial ventures (Yusop et al. 2020). This is consistent with Kadir et al. (2015) suggestion that private Islamic schools generate revenue through the sale of food and clothing under a social enterprise model. Trading or entrepreneurial activities have increased in popularity as a means of guaranteeing financial stability and sustaining operations for TIs.

External sources, on the other hand, refer to funds received from sources other than TIs, including donations and sponsorship, government grants, zakat, and waqf. Waqf is a charitable endowment made by Muslims for education or religious purposes and it is very important for the development of the Islamic ummah and one of the practises recommended by Islam (Hassan, Abdul-Rahman, and Yazid, 2018). Previous research has discovered that waqf plays an important role in ensuring the long-term viability of TIs in Malaysia (Yusop et al., 2020). Additionally, Meerangani (2019) found that Zakat is a significant source of funding for TIs implying that TIs should be able to improve their operations in providing quality education through systematic zakat distribution and proper fund management. Moreover, according to Yusop et al. (2020), zakat funding received by a few selected TIs is classified as "fisabilillah," as is payment to "amil". Moreover, TIs also received development assistance from the government in the form of monetary and non-monetary funds (Gazali and Che Ismail, 2019). The amount received from the federal government, state government, or even government agencies varies between TIs and is determined by the number of registered students. Although the amount received is insufficient, it nonetheless contributes to the growth of the TIs.

As a conclusion, TIs are mostly funded internally by school tuition and entrepreneurial activities, while externally through donations, sponsorship, Islamic funds such as zakat and waqf, and government assistance (Yusop at al., 2020). Despite all of the efforts and initiatives made to raise funds, these sources of revenue are insufficient to assure the TI’s long-term viability.

**Accounting and Reporting for Non-Profit Organisations**

Non-profit organisations are legal entities which are established and operated for the benefit of humanity, public or social good and attempt to raise funds through donations and public confidence. For non-profit religious organisations such as mosques. Tahfiz institutions and churches, it is a place of worship and faith-based non-profits which have missions that are based on religious values. To avoid financial scandals and to strengthen RNPO’s accountability, trustworthiness, honesty, and openness to the public, the government and state religious councils who have invested time, money, and faith in the organisation, it is important to formulate a financial reporting system.

In Malaysia, the majority of NPOs are not governed under the Companies Act, resulting in a lack of public accountability and transparency, particularly regarding financial reporting and auditing obligations, when compared to those registered under the Companies Act. According
to Mahadi et al., (2021) this resulted in a low level of financial disclosures by Malaysian NPOs, especially RNPOs. Non-profit organisations that are not registered with Registration of Company (ROC) may choose not to publish audited annual reports for public viewing. As a consequence, only a few RNPOs have voluntarily released annual reports, and these reports provide less information about important financial policies and decision-making (Mahadi et al., 2021). Additionally, there are no specific accounting standards applicable to NPOs, rather, they are subjected to less stringent reporting requirements in order to comply with minimum regulatory requirements (Mahadi et al., 2021, Mohd Sanusi, Johari, Said & Iskandar 2015, Zainon, Hashim, Yahaya & Atan, 2013, Arshad, Abu Bakar, Sakri & Omar, 2012; and Mohd Nasir, Othman, Said & Ghani, 2009).

Financial scandals involving RNPOs, as well as their involvement in unethical and wrongdoing, have compelled NPOs and RNPOs to adopt highly transparent and accountable financial management practices. Despite numerous efforts to improve RNPO service quality, their integrity has been tarnished by numerous scandalous incidents of fund embezzlement and corruption; there are also issues of accountability regarding illegal fundraising and mismanagement of TIs funds collected (Bani et al., 2017; 2014). The fundamental causes of these financial atrocities are said to be lack of financial accountability and legal requirements (Mahadi et al., 2021). Rodriguez, Gutiérrez & Albarracín (2020), assert that NPOs are currently faced with the challenge of convincing society that they manage the funds they receive efficiently, and that transparency and good governance are required to establish the social credibility necessary for an organisation to continue and achieve its goals. According to Pérez & Cruz (2017) cited by Rodriguez et al. (2020), transparent information reveals that NPOs adhere to a set of best practices, implement good governance, explain how funds are spent, and make information publicly available.

In general, NPOs prepare the following financial statements: Receipts and Payments Account, Income and Expenditure Account, and Statement of Financial Position. The receipts and payments account is a summary of cash and bank transactions used to prepare the income and expenditure account as well as the Statement of Financial Position. The vast majority of their transactions are carried out in cash or through a bank. Because non-profit organisations' activities involve money, they must also maintain accurate records, as they are dealing with public cash. These non-profit organisations must prepare specific financial statements to determine the financial results of their activities over a specified time period.

**Effective Accounting and Reporting for Tahfiz Institutions**

TIs operate in society on the basis of public funds and government allocations, which necessitates accountability to society for the funds received. They are commonly funded through internal sources such as tuition, school fees, and contributions from owners and family members, as well as external sources such as zakat, donation, and waqf from private individuals and Non-Governmental Organisations (NGOs), the Islamic Council, and private and public companies. Therefore, to improve accountability and transparency TIs must keep proper accounting records and maintain proper control over the use of their funds. All funds received by TIs should be recorded in the account as receipts and all expenses should be recorded as payments. All supporting documents, such as bills and vouchers, should be kept in a proper filing system.

The presence of financial control practices is critical to ensuring the financial integrity of TIs in maintaining their accountability to the clients they serve (Mahadi et al., 2019). High expectations from the donors, required TIs more accountable and should implement strong
internal control practices. The fraudulent cases particularly funds embezzlement occur due to inappropriate accounting and reporting practices. Thus, this paper provides a few suggestions for TIs to improve their financial reporting and internal control.

Despite the fact that no rule specifies which books or records must be kept, TIs are obligated to retain certain books and records. Additionally, TIs must have access to source documents that enable them to verify the information included in their books and records. When TIs receive funds, they should provide donors with an official receipt. The receipt should be reconciled with the bookkeeping and cash in the bank. Furthermore, donors of in-kind donations are also entitled to an official receipt from TIs indicating the fair market value of the gift. This is to ensure that the amount of cash or in-kind donations is appropriately recorded by TIs. It is important in maintaining accurate, complete and timely financial books and records to ensure appropriate receipting of donation and monitoring of TI expenditures.

Furthermore, all TIs must have a Tahfiz bank account. It is important to maintain accurate records and track public funds. Having a TIs bank account makes it easier to separate TIs transactions from personal accounts. All contributions received by TIs should be transferred directly to a Tahfiz bank account rather than personal accounts. It is also important to prevent carrying too much cash to avoid losing money due to theft or fraud.

As an added precautionary measure, TIs should strengthen their internal control system for authorisation and control of cheque issuance. Control over TIs' access to blank cheques is required, and all cheques signed must have at least two signatures. There is a risk that public funds will be spent on the wrong activity or that reporting will not be completed correctly or on time in the absence of a proper internal control system. If any of these events occur, the TIs may lose public trust. As a result, effective authorisation supervision and a strong internal control system can promote accountability and transparency in order to attract more donors.

In order to sum up, TIs should choose an appropriate accounting system to help them keep accurate records over the appropriate time period. There are several packages available to accommodate a wide range of needs and budgets. Accounting cycle processes such as recording, grouping, summarising, and reporting can be performed and processed automatically by the accounting system. By implementing an accounting system, human error can be reduced and reports can become more accurate and accountable. Figure 1 and 2 shows the suggested accounting cycle model and financial statement, which consists of three accounts: the Receipts and Payments Account, the Income and Expenditure Account, and the Statement of Financial Position.
The Importance of Effective Accounting in Bringing Public Trust on Tahfiz Institutions

Time and again, the media exposes TIs for financial mismanagement or upper-level management misconduct. Given this, it can be especially damaging to a TIs, where a damaged reputation can have disastrous consequences. Fund management is one of the most important factors to consider in order to keep TIs growing and thriving, as some TIs lack a formal money management system, resulting in unstable financial positions.

Numerous research studies have been undertaken on financial scandals involving religious-based non-profit organisations (RNPOs) and their engagement in unethical and unlawful behaviour as a result of their lack of financial accountability and compliance with legal
standards. Roslam, Arshad & Mohd Pauzi (2017) examined the reporting practices of non-profit organisations in Malaysia based on a content analysis of annual reports of 205 NPOs registered with the Registry of Societies for the fiscal year 2011, and discovered that the overall information reported by the NPOs is relatively weak, with NPOs disclosing relatively high non-financial information in comparison to financial information. According to the findings of this study, there is a need for more comprehensive reporting guidelines for non-profits that can help relevant stakeholders make decisions.

In addition, Mahadi et al. (2021) conducted a detailed study on financial scandals involving religious-based non-profits, and the study concluded that RNPOs will keep their responsibility duties to the clients they have served if they have effective financial control systems. The RNPOs’ financial control practices are mediated by the religions that they have adopted, the RNPOs’ affiliation (i.e. local-based, foreign-based, and/or semi-government organisation), and the level of sponsorships and grants they have received, according to the study, which interviewed representatives from various religious-based NGOs (i.e. Islam, Buddha, and Christian).

Furthermore, Zainon et al. (2013) examined the annual reports of 100 non-governmental organisations (NPOs) registered with the Registry of Societies (ROS) in the charity and religious categories and discovered a significant need for enforcement to ensure compliance with and submission of annual reports. The study discovered that non-governmental organisations (NGOs) are unable to demonstrate high-quality reporting standards when creating annual reports for stakeholders due to a lack of standards and minimum legislative requirements.

As a result, an effective accounting and reporting system is needed to avoid the erosion of public trust in tahfiz and to ensure that tahfiz is more transparent and accountable in its management of funds received from external sources. According to Crawford, Morgan, & Cordery (2018), research on developing international financial reporting standards for not-for-profit organisations revealed the need for international financial reporting standards for NPOs, acknowledging the importance of broad stewardship accountability to all stakeholders while prioritising accountability upwards to external funders and regulators.

Conclusions

TI’s funding sources, which include tuition and school fees, as well as donations and sponsorship from the general public, individuals, non-governmental organisations (NGOs), the Islamic Council, as well as private and public companies and organisations, hold them accountable to a diverse range of stakeholders, including regulators, donors, parents, and students. Since transparency and public confidence are key components in raising future donations, TI must put in place financial accounting and reporting practices and make information about its fund management available on a regular basis.

This study has concluded that non-profit organisations are required to prepare the following financial statements: Receipts and Payments Account, Income and Expenditure Account, and Statement of Financial Position, provide an official receipt to donors who make cash or in-kind contributions, create a tahfiz bank account, strengthen their internal control system for authorisation and control of cheque issuance by requiring at least two signatures, and select an appropriate accounting system to assist them in maintaining accurate records over the appropriate time period.
The proposed accounting cycle model, which comprises six steps, has been introduced in this paper. The first step is to carry out the operation via transactions that adhere to the budgets. The second step is to collect source documents such as receipts, invoices, and bills, followed by the third step of journalizing the transactions. The fourth step is to post the transactions into the cash book. The final step is to prepare the financial statement, which includes the Receipts and Payments Account, Income and Expenditure Account, and Statement of Financial Position. Future research should include the development of a performance evaluation model for non-profit organisations based on financial reporting and budgets.

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