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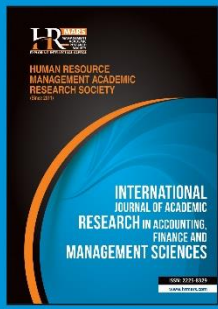
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The Effect of Internal Control on Funds Management by Privately Run Tahfiz Schools in Klang Valley

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Abstract

Mushrooming of privately run Tahfiz schools in Klang Valley in recent years has led to some schools being unable to sustain the school expenditures due to insufficient and inefficient funds management. There are instances whereby the contribution received from the public is being misused for the personal gain of the founder. The aim of this conceptual framework is to determine the relationship between internal control components with Tahfiz School's fund management. This study is to shed light on this aspect as limited prior research has discussed this issue. The results obtained are expected to facilitate the school's management of fund management. Primary data is going to be collected using questionnaires. Surveys are sent to selected privately run Tahfiz schools in Klang Valley. Five components of internal control are going to be regressed against fund management using multiple regression analysis. The five components of internal control are control environment, risk assessments, control activities, monitoring, and information and communication. These components of internal control will be hypothesized against the fund management to determine the relationship. A positive relationship between the variables is expected. Future research is hoped to extend the survey to all privately run Tahfiz Schools Malaysia-wide.

Keywords: Internal Control, Fund Management, Inefficient of Funds, Islamic Education, Tahfiz School

Introduction

In the 1980s and 1990s, Tahfiz Schools are only meant for orphan students and poor families. Nowadays, parents send their children to Tahfiz schools as more Tahfiz schools offer dual mediums of education, Islamic and conventional. The mushrooming of Tahfiz School in Klang Valley in recent years has led to some schools being unable to sustain the school expenditures due to inefficient fund management. In addition, there are instances where the students were even required to solicit funds from the public. Internal control and accountability of Tahfiz Schools are elements that can prevent these unwanted practices. This study hopes to find out whether there is a significant relationship between internal control with funds management

by Tahfiz Schools in Klang Valley. In addition, this study would like to evaluate the internal control practices of these schools.

Background

Brief History

Thafiz School was formally established in Malaysia in the year 1966. The purpose was to facilitate students in learning and memorizing the Al-Quran (Muhammad, 1997; JAKIM, 2003). The main encouragement for establishing Thafiz School when Ma'had Tahfiz Al-Quran wal Qiraat (MTQ) was established as a department under Bahagian Hal Ehwal Islam (BAHESIS) in Jabatan Perdana Menteri, Kuala Lumpur in the year 1984 (Ahmad, 2015). The two main objectives of MTQ are to produce *hafiz* and *hafizah* (the person who memorizes the Al-Quran) and *ulama* who is an expert in knowledge of the Al-Quran (JAKIM, 2003).

Thafiz School is considered an Islamic school. Islamic schools in Malaysia are divided into formal and informal education streams. The formal Islamic education stream falls under the purview of the Ministry of Education, State Islamic Religious Council, and JAKIM (Misbahrudin & Noor, 2022).

Learning and memorizing Al-Quran is not emphasized in formal education streams, either in primary or secondary schools in Malaysia. Muslim parents are seeking an alternative to send their children to Thafiz Schools. Thafiz Schools focus on learning and memorizing the Al-Quran. The learning and memorization of the Al-Quran become fundamental to becoming a good Muslim.

Problem Statement

As the demand for Thafiz Schools is increasing, private institutions have started to offer places for students to register. Muslim parents started to send their children to these institutions. Most of the private Tahfiz schools in Malaysia received their funds from contributions from third parties including different types of Islamic charity funds such as sadaqah, waqf, and zakat in terms of cash and goods on top of minimal tuition fees charged. These Tahfiz Schools also get allocation from the government every year under the Malaysian Budget. The allocations are increasing. In December 2019, Thafiz Schools received RM75 million in allocations from the government for the 2020 Budget as well as the 2019 Budget (Bernama, 2019). The number of allocations received was substantial. The allocations were distributed partly to improve the infrastructure of these Thafiz institutions apart from financing the education of the students.

It is not easy to manage those funds which will lead to issues and problems including handling the process of collection, management, and distribution (Kamaruddin & Ramli, 2017). There are cases of abuse and misconduct of religious charity funds. Newspaper articles highlighted the mismanagement of funds by the caretakers of privately run Thafiz institutions. In October 2019, a chairman and a principal of a privately run Thafiz institution in Sungai Udang, Selangor were charged in court due to the misappropriation of funds. Both the chairman and principal were accused of embezzling funds that were supposed to be allocated to students who are studying in Turkey (Muthiah, 2019). In another article, dated January 2022, a court froze RM10 million in public donations money received by a Thafiz Institution that was involved in

a fire in 2017. The fire took the life of 21 students and 2 teachers. Next of kin of the fire victims claimed that they never receive any single cent of money donated by the public (Mohd, 2022). Further damaging the Thafiz School's reputation, a Thafiz school was used to channel donations that were politically motivated, A newspaper article highlighted that a Thafiz School in Melaka was stated to receive RM2 million in donations from a businessman connected to Datuk Seri Zahid Hamidi's corruption trial in the year 2016. The donation was to be used to finance the monthly cost of running the Thafiz School (Lim, 2020).

Are these funds being managed effectively and efficiently? This study is important to help to ensure that the private Tahfiz Schools in the Klang Valley practice an effective internal control system for funds management.

Since the donations or funds received from the public are the main elements for the private Tahfiz Schools to run their organizations and deliver their services to the public, it is important for them to implement good internal control practices on the funds' management. This study will help private Tahfiz Schools in Klang Valley to manage their funds with good internal control to ensure that the institutions can survive, gain public trust, and continuously provide services to their Tahfiz students.

A previous study has conducted research on the effect of internal control on the performance effectiveness of non-profit organizations in Malaysia. To the knowledge of the writer, none so far has been conducted specifically to determine the effect of internal control on funds management by privately run Tahfiz School in Malaysia. This study hopes to bridge the gap between previous studies.

Research Objectives

RO1: To investigate the relationship between internal control practices and fund management by the privately run Tahfiz School in Klang Valley.

RO2: To identify the relationship between the internal control components (control environment, risk assessments, control activities, monitoring, and information and communication) with the fund management.

Research Questions

RQ1: Is there any significant relationship between internal control practices and fund management by privately run Tahfiz Schools in Klang Valley?

RQ2: Is there any significant relationship between the internal control components (control environment, risk assessments, control activities, monitoring, and information and communication) with the fund management?

Literature Review

Issues

In the 1980s and 90s, Tahfiz School was referred to as "Sekolah Pondok". This type of school only focuses on Islamic education which gives focus on memorizing Quran. At this time, the majority of the students were orphans, and some came from poor backgrounds. In the 2000s, we can see more Tahfiz School offering dual education in Islamic and conventional. This concept has become popular recently as more parents prefer to send their children to a

school that covers aspects of duniawi and the hereafter. Currently, students in Thafiz schools come from various backgrounds and are not limited to orphans and the poor.

In 2016, there were 577 Tahfiz centers in Malaysia, and 547 were privately owned (Ministry of Education, 2016). In 2021 the number increased to 1,159 (Jusoh, 2021). As highlighted by Bani et al 2017, the privately run Tahfiz centers have their own governance practices following the founders' principles. As the governance practices are based on founders' principles there is no consistency between one with the other Thafiz schools. Inconsistency in governance will lead to the mismanagement of funds and other problems. Managing funds effectively with effective internal control procedures will ensure the continuity of the Tahfiz Schools (Dzomira, 2014).

Fund Management

Fund management is defined as activities that are concerned with planning, raising, controlling, and administering funds used in the business. Effective and efficient fund management is necessary to ensure that Thafiz schools have enough funds to cover the operation cost and financial sustainability.

Yusop et al (2020) highlighted that the biggest source of funding for Thafiz Schools in Malaysia comes from fees paid by the parents. This study highlighted that Thafiz Schools are having problems in managing the funds to sustain escalating operating costs. They cited problems such as being unable to collect outstanding fees and get donations. In another study, Anas et al (2021) documented that there were three significant challenges that Thafiz Schools are facing. One of them is working capital management.

Previous research documented that internal control systems do influence the accountability of village fund management (Yudianto & Sugiarti, 2017).

In another study, the government's internal control system does influence the accountability of village fund management (Triyono et al., 2019). The study concluded that an effective and efficient internal control system improves village fund management. In addition, this study found that the village financial system influences the accountability of the village funds management.

A study in India found that internal control governance influences a firm's cash flow manipulation (Nagar & Raithatha, 2022). This study documented that active corporate boards in India can reduce cash flow manipulation.

Internal Control

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), one of the professional internal control bodies, internal control refers to activity practices by an organization to achieve three main objectives which are (1) reliability of financial report; (2) effectiveness and efficiency in operations; and (3) compliance with applicable laws and regulations (COSO, 2013).

Components of Internal Control

The five components of internal control as defined by COSO Internal Control Framework 2013 are highlighted as follows

Control Environment

The control environment of an organization sets the tone of the procedures that the staff needs to adhere to. The procedures are established by the board of directors. The procedures documented the rules and regulations that each of the staff needs to adhere to.

Risk Assessment

Each organization will need to identify the risk that the organization will face. The identification will highlight major risks that the organization is being exposed to. Identification of risk will facilitate the measurement and monitoring aspect of the risk.

Control Activities

An organization will implement a set of policies and procedures so as to ensure the organization's business activities minimize the financial risk that its faces. These policies and procedures can be categorized as preventive, directive, and detection activities. Procedures such as segregation of duties, reconciliation of reports, and proper verification and approval are some examples of control activities.

Information and Communication

Information and communication will ensure that the internal control procedures are communicated to each of the staff in the organization. Proper channeling of information will ensure that each member of staff understands the procedures that are to be undertaken. Effective communication will ensure that the BOD's expectations are understood by the entire staff.

Monitoring

The last component of internal control is monitoring. Monitoring activities will ensure that the procedures are effectively being carried out as documented. This activity ensures that the procedures and the rules are being followed and not just written in a document.

Prior research documented that effective internal control would improve the financial performance of an organization. Some of the research are highlighted as follows:

Akhter (2022) documented that internal control components have an impact on banks' financial performance. The components that have an impact were risk assessment and information and communication systems. Another study also documented similar findings on internal control of Bangladesh commercial banks' financial performances (Chowdhury, 2021). Chowdhury (2021) found out all the components have an impact on banks' financial performance.

Good internal control practices will reduce Islamic Non-Profit Organization's financial risk. Effective internal control practices will provide reliable evidence and information toward discharging financial accountability to the public. In addition, effective Internal control facilitates Islamic non-profit organizations in getting donors from corporate clients as it increases transparency and accountability to the stakeholders (Kamaruddin & Ramli, 2018).

Hasnan et al (2016) documented that corporate governance factors do affect donations received by charitable organizations in Malaysia. This study found that board members having

professional affiliations and board members with political connections were significantly associated with donations received. Board members that have professional affiliations will ensure the internal control system is properly in place in the privately run Thafiz schools.

Ayedh et al (2020) concluded that the five components of internal control are in line with the Maqasid Shariah framework. The Maqasid Shariah framework that is referred to in this study is in relation to the protection of life which is safeguarding the interest of the stakeholders.

A strong internal control system can reduce the risk of occupational fraud committed in a company (Nawawi & Salin, 2018).

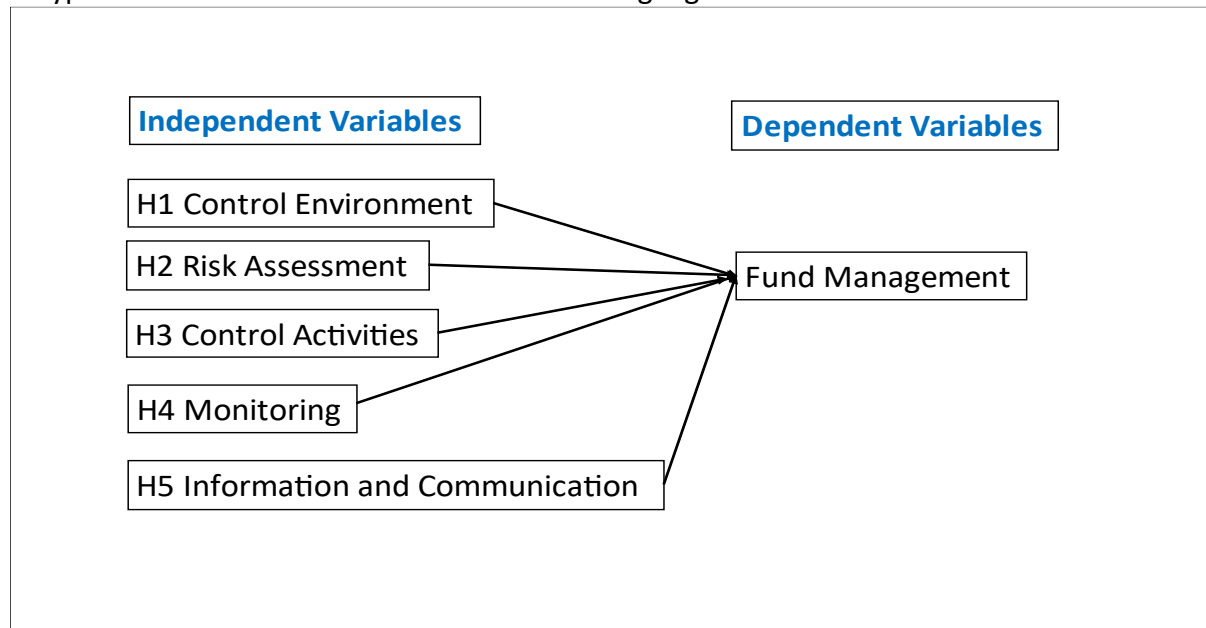
Rosman et al (2016) studied the effect of Internal Control Systems and Budgetary Participation on the Performance Effectiveness of Malaysian Non-Profit Organizations. They documented that there was a significant relationship between the control environment, control activities, risk assessment, monitoring, and financial performance.

This study wishes to replicate the above study and focus only on Thafiz Schools in Klang Valley.

Conceptual Framework

This study is using COSO Framework 2013 as an underpinning theory. The framework is important to organizations to ensure effectiveness and efficiency in operations. In addition, the framework ensures the reliability of the information provided in financial statements as well as compliance with applicable laws and regulations. Therefore, this study is trying to test the relationship of all 5 components of internal control with the fund management of the Tahfiz schools in Klang Valley

5 hypotheses will be tested. The framework is highlighted as follows:



Thus, this study would like to test the following hypotheses

H1: There is a significant relationship between the control environment with fund management.

- H2: There is a significant relationship between risk assessment with fund management.
H3: There is a significant relationship between control activities with fund management.
H4: There is a significant relationship between monitoring with fund management.
H5: There is a significant relationship between information & communication with fund management.

Research Methodology

This research focuses more on Quantitative Method. The survey was developed using the criteria set by COSO Internal Control Framework 2013. Online surveys or personally distributed surveys are sent to Tahfiz Schools in Klang Valley. The researchers plan to send surveys to Tahfiz Schools that are registered in a few selected districts in Klang Valley.

Pilot Testing

Pilot testing was conducted before actual surveys are sent. 30 questionnaires were sent to Tahfiz Schools that are not on the final list.

Sample

The email and registered address of Tahfiz Schools were obtained from Jabatan Kemajuan Islam Malaysia (JAKIM). An email was sent to the person in charge in JAKIM. The respective staff has given us a link for us to obtain the list of registered Tahfiz Schools in Klang Valley.

Sample Selection

Convenience sampling is selected. Responses are easily obtained (Etikan et al., 2016). In addition, the cost is cheaper (Etikan et al., 2016).

Data Analysis

The results from these surveys will then be regressed using SPSS.

Conclusion

Tahfiz School was established for the purpose of learning and memorizing the Al-Quran. The increase in demand for these schools has encouraged private institutions to set up their own institutions and start to enroll students. Private donations and government funding started to pour in for these schools. The increase in the number of institutions and limited available funding have contributed to mismanagement and inefficient fund management. This study is conducted for the purpose of determining the relationship between internal control and fund management of privately run Tahfiz schools. Data is collected through surveys that are distributed to these schools. Data is then regressed to determine the relationships of variables under study.

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