

Accounting System and Accountability Practices in an Islamic Setting: A Grounded Theory Perspective

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ABSTRACT

The purpose of this paper is to provide theoretical insights on the accounting and accountability practices of Islamic religious non-profit organisations. A case study of an Islamic boarding school in Aceh, Indonesia, was conducted and a grounded theory is used in this research. Data were generated from interviews with people inside and outside of the organisation, review of documentary materials and observation of the daily activities of the organisation. The study found that the financial report is seen by the management of the Islamic boarding school as an instrument that plays a very significant role in enhancing accountability of the organisation. Accounting activities are viewed as activities that have no contradiction to the religious belief and also the missions of the organisation. However, accounting practices in this institution are less developed and the financial accountability demonstrated by the management is still far from what is expected by society.

Keywords: Accounting, accountability, Islamic boarding schools, non-profit organisation, religious organisation

INTRODUCTION

There has been growth in research concerning accounting and accountability in religious organisations (see Laughlin, 1988, 1990; Rahim & Goddard, 1998; Jacob & Walker, 2004; Booth, Sinoo, 2004, Carmona & Ezzamel, 2006; Afifuddin & Nabiha, 2010). These studies have attempted to understand accounting and accountability of organisationally situated practices. However, majority of the published studies have particularly focused mainly on Christian organisations. Only a small

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number of studies have dealt with other religious organisations including Islamic religious organisation, especially those of educational institutions. Furthermore, the issues of accounting and accountability in Islamic religious organisations have generally been unexplored in accounting academic literature (Ezzamel & Carmona, 2006). This lack of research on accounting and accountability practices within Islamic institutions was a significant lacuna in the accounting literature motivates this study. Thus, this study attempts to investigate the accounting and accountability practices in an Islamic religious institution called *Pesantren* [an Islamic boarding school] in Aceh, Indonesia.

In general, religious-based institutions, including Islamic organisations, have very significant roles in any society, especially in provision of services for the community. One of the most important organisations in Indonesia is *Pesantren* which provides education services at minimal cost for students. The *Pesantren* institutions have received a lot of fund both from government and society at large. However, there are concerns over the administrative process of the organisations, including their accounting practices which are not up to the expected standards.

Pesantrens are mainly owned by foundations and private owners who tend to control a sizeable proportion of human, financial and other resources of the society. As such, the survival of the *pesantren* is contingent on the support and trust of the public. With regards to the accounting

practices of the *Pesantrens*, information regarding financial accountability in these organisations has been lacking. There are also a lot of anecdotal evidence which suggests the lack of public accountability and transparency in these organisations. Hence, the accounting and accountability practices of a religious non-profit organisation were examined in this paper.

The findings of this study are hoped to provide an understanding and explanation of the accounting and accountability practices in *Pesantrens*. As such, this study contributes to the theory and practice of management accounting in religious-based organisations, especially in the Islamic organisations.

The rest of the paper is organised as follows: Section 2 provides the review of relevant literature. Section 3 discusses the methodological approach on which the analyses of the study are based. The findings are discussed in Section 4, and this includes the overview of the case organisation, role of accounting of the *Pesantrens*, internal control and financial management, accountability relationship, as well as the role of board (foundation committee) in enhancing the accountability of the investigated Islamic religious-based organisation. Finally, the conclusion and implications of the findings are provided in the last section of the paper.

LITERATURE REVIEW

An extensive study conducted in this area was undertaken by Laughlin (1988, 1990). His study demonstrated how accounting

practices interact with religious belief systems held by the participants of the Church of England. Laughlin viewed that accounting practices are closely related to the financial elements of the organisation. Laughlin (1990) also noted that the underlying structure of the financial accountability in the main Church-based units was dominated by the sacred-secular divide. In this context, he argued that all Church organisations are dominated by this perception.

Laughlin (1990) noted that accounting and accountability matters are seen as secular and secondary to the organisations. However, the findings of Laughlin (1990) concerning the sacred-secular divide of accounting in church, are opposed by Jacobs and Walker (2004) as the findings of their study showed that the sacred-secular divide is not supported in the research of accounting and accountability practices within the Iona community. Jacob and Walker (2004) noted that within the Iona community, accounting served to support the sacred practices. Thus, accounting and accountability in this community are regarded as part of the observance by its members of the rules and as an integral component of their Christian practices.

Another research on Churches was conducted by Siino (2004) who did a survey of Baptist churches. The study revealed that there is a lack of control system in these organisations that could hinder financial abuses. More than half of those surveyed did not have a formal codified financial

procedures. In fact, there are also churches that did not demand written documentation for disbursement of funds nor formal explanation for variance in their budget.

Furthermore, Quattrone (2004), who examined the accounting and accountability practices in the society of Jesus, Italy, during the sixteenth centuries, noted that “the emergence of accounting and accountability practices was tightly linked to the absolute ideology of Roman Catholic doctrine of the Counter-Reformation” (Carmona & Ezzamel, 2006, p. 119). It is argued that such doctrine was the site of compromises involving theological, religious, political, institutional and social dimensions.

Another study investigating accounting and accountability practices, especially concerning Islamic religious organisations, was undertaken by Rahim and Goddard (1998). They (1998) conducted case studies of two State Religious Councils in Malaysia. The objective of their study was to examine accounting practices in these two organisations by using an interpretive methodology. The findings of Rahim and Goddard (1998) indicated that the use of sophisticated accounting techniques is minimal in the two aforementioned Islamic religious organisations. The role of accountants in these organizations is meaningful only as an organisational practice. Accounting is used only for recording of financial information and not for enhancing the accountability of the organisations. As such, the role of the accountant has been reduced to the role

of bookkeeper. In addition, there is no separation between accounting works and other religious activities in both organisations because they need accounting to function properly to financially organise the activities, which could not otherwise be properly carried out. Such studies of Islamic religious organisations have indicated the existence of the interaction between religious belief systems and accounting practices.

Furthermore, Jayasinghe and Soobaroyen (2009) presented an analysis on how accountability is perceived by the people within the Hindu and Buddhist based religious institutions. The accountability mechanism is seen as sacred elements which are influenced by power and patronage relationships, trust and loyalty, and social status. The accountability within religious organisations is largely visible as an informal and social practice rather than a stakeholder-oriented rational mechanism.

METHODOLOGICAL APPROACH

This study investigated a *pesantren* in Aceh, Indonesia. The data for this study were mainly derived from semi-structured interviews, documents and observations. The case study approach was used in this study since it enables the use of various sources of data which allow for more indepth analysis and greater understanding regarding the accounting and accountability practices of the case organisation (see Lightbody, 2005). Interviews were

conducted with key informants, both inside and outside of the organisation case, who have some leadership responsibilities in this entity. They are the directors of the case organisation, unit managers from different divisions, students, members of foundation committee, as well as directors of government agencies and directors of institutional donors who frequently provide donations for local Islamic religious organisations and Muslim scholars. In total, 19 people were interviewed and 33 interviews were carried out. This is because some people were interviewed more than once. Most of the interviews lasted about one hour. All the interviews were recorded and transcribed. The empirical study started with a preliminary visit to the organisation in 2007. In order to ensure the consistency of the accounting and accountability practices of the case organisation, the researchers once again conducted a field visit in 2015. The actual fieldwork was done over the six-month period in 2007. Further interviews for validation were conducted in 2009 and 2015. A list of the interviewees is given in Appendix 1.

A grounded theory approach was used in this research. The data analysis and theoretical insight were based on the principles of grounded theory. Grounded theory is defined as “a qualitative research method that uses a systematic set of procedures to develop an inductively derive grounded theory about a phenomenon” (Lightbody, 2005, p. 7).

FINDINGS AND DISCUSSIONS

Overview of the Case Organisation

Pesantren Peace¹ is one of the Islamic boarding schools in Aceh, Indonesia, which was established in 1961 under the management of Yayasan Kita (Kita Foundation).² The main activity of the *Pesantren* is to provide the educational services for both junior and senior high schools. The schools are open to the public to both male and female students from various family backgrounds. As a modern *Pesantren*, apart from teaching the *kitab kuning* (a classical Islamic textbook), this institution adopts the standard curriculum set by the Department of Religious Affairs of Indonesia with a class size of 30 students. Although the classes are conducted mainly using the Indonesian Language, the students are highly encouraged to use Arabic and English when they interact with each other.

In 2008, Pesantren Peace had nearly 2,000 students, of which 54% were female students. The *Pesantren* has 178 teachers with 84% of them are temporary teachers and only 14% are permanent teachers. All the teaching staff, except for the government officers, are paid around Rp500.000 (USD50) to Rp2.000.000 (USD200) monthly by the management of the *Pesantren*. Only the teachers with a minimum educational

qualification of bachelor degree are allowed to teach, while for the administrative staff must have a high school certificate. Although the Indonesian Law No. 20/2003 stated that the first nine years of education are compulsory to be attended by all citizens and they are waived off from any tuition fees, the students attending this *Pesantren* still have to pay a very minimal fee. This practice has been supported by the survey conducted by the Asian Development Bank Country Report (2006), which found that 12% of school revenues of the public schools at the secondary level in Indonesia came from the community in the form of various school fees.

As far as the management of the *Pesantren* is concerned, this organisation has historically been managed by people who have a religious education background, but with very little knowledge of financial management and accounting (see Sulaiman, 2007). Surprisingly, Pesantren Peace has been managed by a director who exercises overall control of the Pesantren and its affairs. The director's educational background is not in Islamic studies, but he is a dedicated and successful person who has experiences in managing a business organisation. This is one uniqueness of this particular *pesantren* which perhaps cannot be found in other *pesantren*. In managing this *Pesantren*, the director is assisted by a deputy director, who holds a degree in the Islamic studies, a secretary, and a treasurer (Head of Finance Section). Almost all of the unit managers were graduates of Pesantren Peace, and none of them graduated from

¹ The name of the case organisation has been changed to ensure confidentiality.

² Kita Foundation refers to the name of the foundation that oversees the Pesantren Peace. Note that the name of the foundation has been changed to ensure confidentiality.

business and accounting schools. The *Pesantren* also has an Advisory Board, comprised of ten senior persons who have been involved in the activities of the organisation for years and their duties are to provide direction and guidance for the management in various aspects, except for financial matters. For their services, they are not provided with any compensation, and they work on a voluntary basis.

In order to finance the operationalisation of the institution, apart from the collected tuition fees from the students, *Pesantren Peace* has received considerable funding from the local (district) government and public donations, both individual and organisational donors.

The Role of Accounting

The field of accounting in non-profit organisations, particularly religious organisations has been the subject of some previous studies (see Laughlin, 1990; Rahim & Goddard, 1998). Its purpose is to obtain an instrument for internal and external stakeholders that can be used to manage and monitor the development in accordance with the organisation's mission. For example, when a non-profit organization receives a donation, it is essential to quickly record the amount and report how it is spent. It is argued that, ideally, an accounting and financial reporting system leads to better decision making for internal management and external stakeholders such as government and donors. Furthermore, as mentioned in the literature, accounting information has long been used as the main accountability

tool in many organisational activities, regardless of their objectives and missions.

In the case of *Pesantren Peace*, the management sees accounting as an instrument that plays a very significant role in the organisation. This is reflected in the explanation of the human resources manager:

“Accounting is indeed very necessary for an organization, like in this *Pesantren*. I do not see accounting only from the viewpoint of working professionalism or the standards used. Even in Islam, as a matter of fact, accounting, record, report, etc. are very important. No matter how well a person carries out a task, there would be a bad assumption from other parties if it was not accompanied by good recording.”

He further noted that:

“I believe accounting is absolutely important and it is a part of religious activities because Islam encourages recording. It can be established if supported by a good accounting, as well as good transparency. I think it is very crucial.”

This view is also reinforced by the director of the *Pesantren* when he said:

“In the past this *Pesantren* was in a mess and unorganized because

of poor accounting practices. They were only concerned about the religion. I think accounting is also part of the religion.”

Thus, for the management of Pesantren Peace, accounting activities are viewed as activities that have no contradiction with the *Pesantren* mission and it is perceived as an integral component of managing the institution or in other words sacred in nature. Thus, in practice, accounting is not treated as irrelevant to the organisation’s mission as documented in previous research conducted on some religious organisations.

In short, a sacred-secular divide, where accounting is viewed as secular activities, is not applicable to Pesantren Peace. This departs from the major insights gained from previous research such as the study of Church of England conducted by Laughlin (1988, 1990) in the sacred/profane dichotomy. However, it is similar to the concept of accounting activities identified in the previous research of Islamic religious organisations conducted by Rahim and Goddard (see Rahim & Goddard, 1998).

Contrary to the belief of the management of Pesantren Peace concerning the role of accounting, in practice, the accounting in this organisation does not function maximally. Accounting activities are undertaken by the people who are not professional accountants, but are primarily dedicated people who have administrative skills since the *Pesantren* does not employ any professional accountant. The director said that:

“The finance unit manager is not good at accounting, but I catch her based on my experience in the industry I was involved... I have to say that there are some recording are not suitable. Therefore, I try my best to improve it. Hopefully, it is getting better.”

Thus, even though accounting is considered as playing an important role in supporting the achievement of the goal of Pesantren Peace, the management does not pay enough attention to their accounting activities since they do not have skillful accountants or accounting professionals. This can also be seen from the system used, in which all transactions are still processed manually even though Pesantren Peace has huge assets to be managed. As a result, the accounting section is unable to implement good accounting practices.

Pesantren Peace produces both monthly and annual reports, but the format and the contents of the reports indicated a low level of accounting system and practice. The reports only include simple cash income and expenditure. In other words, the reports only provide information about the transactions and the cash balance during a reporting period. The reports rarely, if ever, are used to evaluate past performance. There is no other financial report prepared by the finance section. There is no accounting procedure manuals either regarding accounting practices. The financial reports provided are used for both demonstrating its financial accountability

and helping the decision making process. However, in practice, it focuses more on accountability to its financial sources/donors in order to make itself accountable for its actions. This is reflected in the following comments:

“Financial report is basically used to show financial accountability to the donors and also to help decision making of what to do with the existing financial situation” (Human Resources Manager).

“Financial reports are used to make decisions and also for the accountability to the Foundation committee and the donors. For instance, the construction of the building should be delayed because of financial problems [insufficient finance]” (Director).

Thus, the accounting practices in the *Pesantren* mainly focused on the control of receipts and disbursement of funds through providing monthly and annual cash receipts and cash disbursement reports. There is no consolidated financial report providing the overall financial condition of *Pesantren Peace*. Seen in this light, the format used is likely to be similar to what it is called fund accounting (see Gross, 1986).

Furthermore, the budget information is not used for the financial control purposes. Budget is done occasionally and it is only for physical development budget. The budget for physical construction is sometimes used to measure the effectiveness and efficiency

of the materials used through comparison of the budget figures with the actual figures, as the Director said:

“I directly supervised the construction of building. For example, I ask question why they bought 100 sacks cement while in the budget there are only 50 sacks written.”

However, generally, budget is not seen as part of the accounting activities or accountability mechanism. The budget is not perceived as the most important organisational process with respect to the purpose of accountability. This may be because of a lack of knowledge concerning the importance of a budget as an instrument of accountability. As mentioned, none of those involved in the management team has an accounting or management educational background.

It is also important to note that in *Pesantren Peace*, fund spent is not classified as programme and administrative expenses. Consequently, from an accounting point of view, the management cannot measure the organisation's performance since one way to judge an NPO's performance is “to measure the amount of resources the organization spends on providing program services (to carry out its purpose) vs. what it spends on management and general expenses and fundraising. For most organisations, a higher percentage of resources spent on

programme services than on management, whereas fundraising is considered a positive “performance indicator” (Henderson et al., 2002, p. 3).

Internal Control and Financial Management

Various empirical research has shown the importance of good administration and control system in religious organisations such as churches and mosques. The internal control theory suggests that a good internal control structure will result in less embezzlement (see Berry, 2005; Sulaiman, 2007; West & Zech, 2008).

This study explored two aspects of financial management of Pesantren Peace; the administration and internal control procedures of the receipts of revenue and the disbursement of funds, as the aspects are perceived as liable to misappropriation.

Pesantren Peace, particularly the Finance Section, handles receipts or funds collected from students, donors or society in accordance with the management policies. The *organisation* implements three control activities in this regard – the recording aspect, the physical custody of the funds, and the segregation of duties.

At the collection stage, there is a cashbook for cash received. The accounting section records all its financial transactions, all cash inflow and cash outflow in the cashbook. Two cashiers handle the collection of cash, the chief cashier and an assistant cashier. A report of the collection is given by the chief cashier to the head of finance section for recording in the cashbook. The

task and responsibility for counting and recording the collections in a cashbook are segregated to different officers. The head of the finance section explained this process as follows:

“We have two cashiers here, the chief and the assistant. The assistant is responsible to the chief. She hands the money to the chief. Then the chief submits it to me together with the receipt and proceedings after calculating it. The cashiers have to do calculation every afternoon. Then they submit to me. I also counted the amount based on the receipts submitted to see if it corresponds with the cashier calculation.”

This is very important to avoid losses resulting from financial misuse, as embezzlement often occurs when trusted employees have access to both assets and financial records. Therefore, a fundamental tenet of internal accounting control is to keep the financial records keeping separate from those individuals who have access to assets, especially cash (see West & Zech, 2008).

Even though there are a financial control procedures in Pesantren Peace for the collection of fund, all the officers in the accounting section have limited knowledge about internal control. They are not even aware of the advantages of the segregation of duties of counting and recording of collection activities. When asked why the

organisation needs to segregate this task, the finance section head explained that she did not know that this task should be segregated. She said, “To tell you the truth, I don’t really understand why we need the segregation of duties”. Whereas, the director of the *Pesantren Peace* understand the crucial role of internal control specifically on segregation of roles and responsibilities from his experience in managing business organisations prior to joining *Pesantren Peace*. He said,

“I was the manager of [business organisation] which has activities throughout Aceh. Therefore, I was asked to lead this *Pesantren*. The knowledge that I gained from the company helps me a lot in leading this institution.”

All cash received is kept in a safe “locked box” since the cash receipts are not always banked when some of it is used for daily expenditures. A monthly report of cash receipt is routinely prepared by the accounting section. Four copies of monthly collection reports are sent to the director of the *Pesantren*. The head of the Finance Section explained this by saying,

“We submit four copies of monthly report of cash received by the director. Then the director decides to whom the report will be submitted whether to foundation committee or any other parties. It is the concern of director.”

The *Pesantren* also ensures that at least four persons are advised of all donations and other aid from society. She further explained saying that,

“At least four persons know about the donation – director, the deputy-director, secretary and head of finance unit.”

Major disbursements are sometimes made by cash. Serial numbered cheques are only used if the cash receipts kept in a locked box on the *Pesantren* premises could not cover the expenditure and also to pay the employees’ monthly salary. If disbursements are made by serial numbered cheques, two people are required to sign the cheque, the director of the *Pesantren* and the head of the finance section.

An invoice is treated as a mandatory supporting document for payment in this organisation. Except for routine disbursement such as expenditure for the kitchen, all invoices for other goods and services expenditures are required to be checked for accuracy, and they must be approved by the director of the *Pesantren* before any payment is initiated either by cash or cheque. The head of the finance section will not issue cash before getting approval from the director of the *Pesantren*.

Official receipts are used as a basis for recording the disbursements by the treasurer in the cashbook. The *Pesantren* does not maintain a petty cash fund for minor expenses. For such disbursement, the *Pesantren* also issues from the same

source allocated for major disbursements. The small disbursements are also initiated with vouchers that have to be approved by a responsible officer. The absence of petty cash as part of internal control is due to the limited understanding on the need of internal control on activities relating to the maintaining of petty cash.

Accountability Relationship

Pesantren Peace views itself as accountable to three different levels of stakeholders. First, it is accountable to funders or donors, either private organisation donors, or government donors. Second, it is accountable to one another and themselves, as the unit manager, staff, and foundation committee. Third, it is accountable to those who are served by the organisation; in this case the community, especially the parents whose children are educated by the *Pesantren*. This is reflected in the following comment:

“Accountability is to our stakeholders, which consist of direct and indirect stakeholders. The direct stakeholders are the government and parents. The indirect ones are other donors including partner educational institutions as well as the community at large.” (Human Resource Manager).

“I receive monthly accountability report from *Tsanawiyah* [Junior High School], *Aliyah* [Senior High School], general kitchen, and from the infrastructure unit. However,

I do not receive a report from an infrastructure unit on monthly basis.

I further report all of this to the foundation.” (Director).

Christensen and Ebrahim (2004, p. 3) emphasised that non-profit organization can be accountable on multiple levels: upward, downward and lateral accountability. Upward accountability is accountability to funders or donors. Downward accountability refers to accountability to the clients or to individuals or groups to whom NGO's provide goods and services. Meanwhile, lateral accountability is an extension of the upward and downward accountability, and this refers to an organisation's accountability to its staff, mission, goal and partners (Christensen & Ebrahim, 2004; Jordan, 2005). Lateral accountability also means that manager of each unit in the organisation has the responsibility to give account to its superior or to the higher authority (Christensen, 2002).

In the case of upward accountability, the management of Pesantren Peace only fulfils financial accountability to government donors and to private organisational donors, and that there is no financial accountability presented to the individual donors. This accountability is shown through sending reports and through verbal explanation during monitoring visits from its donors “government agencies or organisational donors”. *Pesantren Peace* often receives monitoring visits from government agencies or organisational donors that provide financial aid. This is also highlighted by the directors of two donor institutions.

“After giving financial support, Department of Religious Affairs makes a field visit to monitor financial spending, and also to ask the beneficiaries to give account of expenditures made together with physical evidences.” (Head of Government Agency).

“Yes, when we donate money to them, we also some time visit their organizations to ensure that they are transparent, accountable, and also have good management both financial and general administration...our monitoring team visit the field and office to ensure the quality and the progress of the project.” (Director of a Private Organizational Donor)

In terms of lateral accountability, in the context of Pesantren Peace, each head of unit within the *Pesantren* has to give a financial account to the director of the *Pesantren*, either periodically or by request. All of them have to make sure that financial resources are used properly. This is usually ensured through both formal (written) and verbal explanation.

Accountability to its beneficiaries as downward accountability is done by giving a verbal explanation and discussion during the annual meeting with the students’ parents. Clearly, the accountability relationship in Pesantren Peace is “multi-layered”, in which, to difference audiences, accountability is performed through different tools. Table 1 provides a summary of a various accountability tools used by Pesantren Peace.

Table 1
A Summary of the Various Accountability Tools used by Pesantren Peace

	Accountability to Whom	Accountability Tools
Upward/External Accountability	Private Organizational Donors Government Agency	Formal (written) Report Expenditure evidence (Invoices) and photo of physical progress for certain donors Verbal explanations during monitoring visit team
Lateral/Internal	Foundation Committee (Board) Unit Managers, Staff	Formal [written reports] Expenditure evidence [invoices] Staff Meeting Informal communication among staff Phone conversation Attending board meeting Regular contact with School managers
Downward Accountability	Beneficiaries Students’ Parents	Verbal explanations and discussions during general annual meeting.

Even though the structure of Pesantren Peace is hierarchical in nature, there can be different accountability requirements for the fund used by certain sub-units of the *Pesantren*. For example, a special financial aid received from the government such as “school operating fund”, the government i.e. the Department of Religious Affairs directly transfers this particular fund into the account of the school units, not to the *Pesantren* account. This transfer of funds follows the government’s policy in which the units (schools) must be administrated separately. Thus, the school managers have their own treasurers, and the schools are only directly accountable for this fund to the government agency by complying with the government reporting regulations. Whereas, to the director of the *Pesantren*, they only need to inform the total amount of such special funds received and disbursed.

Pesantren Peace is accountable to both internal and external stakeholders. Among the external stakeholders are the donors who provide the funding, students’ parents, users of the services, and the society that indirectly receives benefits from the activities. The internal stakeholders are the foundation committee and the employees of the organisation.

It seems that Pesantren Peace views itself as a steward of the funds entrusted to its institution with the requirement to give an account of its stewardship to its stakeholders. The management of Pesantren Peace has to provide a link between *amanah* (trust) and total accountability and responsibility to human beings (stakeholders). This

belief is consistent with the concept of accountability as the manifestation of Islamic teaching, in which Muslims cannot separate between their accountability to God and accountability to human beings. Thus, as an Islamic religious organisation, the *Pesantren* has to fulfil the obligation to a number of stakeholders which include the government, private sector donors, clients and members, as an integral part of satisfying their accountability obligation to God.

The Role of the Foundation Board [Foundation Committee]

Financial accountability can be improved through several measures. One of them is that the organisation should have a board of directors that consists of independent individuals including some who are not directly connected to or interested with the organization. The main role of the board is to monitor management in order that they manage the organisational resources in furthering the objectives of the organization and not diverting them for their own private enjoyment (see Hyndman & Mac Donnell, 2009).

In non-profit organisations, the board can play a critical role not only in making the selection of the director of the organisation, but also a central role in enhancing the accountability of the organisation to ensure that the organisation’s resources are used wisely and the mission is fulfilled (Kuan et al., 2003). In practice, the board members of non-profit organisations, including religious institutions, usually consists of volunteers,

most of whose efforts are dedicated towards advancing the missions of the organisation. In his study, Kuan et al. (2003) documented that the most important responsibilities of their foundation board members are to verify an organisation annual work plan, followed by verifying and approving annual budgets and financial accounts, and defining organisation tasks and operational procedures. They also mentioned board governance as an important issue when discussing the accountability topic of non-profit organisations. In fact, some view that it is extremely important for the board of directors to play a central role in accountability.

In the context of Pesantren Peace, board members or those who are eligible to monitor and ensure proper organisational accountability are referred to as the committee of Kita Foundation. This foundation committee currently consists of eight persons comprising a director, one deputy director, one secretary, one deputy secretary, one treasurer, and three advisors.

In the past, the director of the foundation committee was also the director of Pesantren Peace. Consequently, the board plays a very limited role and their function in enhancing the financial accountability of the *Pesantren* is rather weak.

Their function is mainly for giving final approval of the decisions made by the director of the *Pesantren*. This is illustrated in the following quote:

“When we receive funds like for the school operational fund, the

foundation committee just signed the paper so that the money can be spent legally. Never have I been invited, never. It is us who invite them (Foundation Committee Members).” (Director)

However, with the new regulation of Kita Foundation, those who hold a position as an executive member of Pesantren Peace are not allowed to be part of the foundation committee. This policy is in line with what is prescribed in the literature concerning non-profit organisation’s accountability, which suggests that a strong oversight board must be independent from the management practice (Jordan, 2005). The segregation is very important because if any board member is directly benefiting from the work of the organisation, it can create a conflict of interest.

Seen from their involvement in the development of Pesantren Peace, the committee members of Kita Foundation are considered as passive. They are not involved in fundraising efforts for the *Pesantren*. They do not take the initiative to invite the director of the *Pesantren* and his members for financial meetings, nor do they ever review or verify the financial reports prepared by the management of the *Pesantren*, as illustrated in the following comments.

“The current committee members are some what passive, since reshuffle just took place. Because of the reshuffle they have to

start from the beginning. They are not very well informed about the assets and financial condition of the *Pesantren*.” (Foundation Committee Member).

“The supervision is actually necessary. The committee should monitor and provide advice and guidance to us. But, it never happens. They only come when we invite them. If we don’t invite them, they do not come. I think it is a real set back and it should not be that way.” (Director).

Interestingly, the director of *Pesantren Peace* tends to accept the passivity of the foundation committee and he never makes any efforts to encourage them to be more involved, given that none of the board members holds a degree or has relevant training in accounting or management, and hence lacks understanding regarding the roles in overseeing the management of the *Pesantren*. Notwithstanding, the board committee ideally should have knowledge in financial supervision, as highlighted by Keating (2001, p. 12):

“For the board, knowledge about the financial performance of the organization is particularly important because it indicative of the performance of the staff. Board hold staff accountable for performance and the board is, in

turn, held responsible by the public for the overall performance of the organization.”

Unquestionably, motivation is not enough to ensure proper organisational accountability by board members because management must be exercised to ensure that the organisation is operated and managed in a manner that consistent with its mission, and in the best interests of the organisation. Therefore, the board committee should ideally have knowledge of financial supervision because “the most scandalous non-profit failures have been because of financial irregularities with resulted from board members not asking finance related questions” (Hurwitz, 2006, p. 1). This means that a weak or uninvolved board opens the door to poor performance of the organisation and fraud.

In spite of this passivity, the foundation committee has expressed their willingness to be more involved and participate actively to advance the organisation’s mission. As explained by a committee member of *Kita Foundation*,

“Now the foundation committee has made a plan to examine and audit the two institutions under the foundation. In the first meeting, they asked the directors of the two institutions to describe the assets condition of the respective institutions.”

This initiative is also acknowledged by the human resources manager as he explained:

“They started to invite us [*Pesantren* management] at the beginning of March. That was the initial step of the foundation committee... They would like to know the real condition of the *Pesantren* in general, including its management and its finances.”

According to one of the foundation committee members interviewed, the audit team consists of committee members of Kita Foundation, all of them serve voluntarily, and are independent from any financial interest in the *Pesantren* organisation.

CONCLUSION AND IMPLICATIONS

Pesantren Peace reflects another approach to Muslim education in Indonesia at present. In fulfilling its mission as an Islamic educational institution, the *Pesantren* employs a non-religious background person to manage the institution, which is not a normal practice since this phenomenon rarely occurs in other *Pesantrens* in Indonesia.

In addition, *Pesantren* Peace is not characterised by the power elite of the royal family, as is the case with many other *Pesantrens* in Indonesia. This clearly indicated that the management style of *Pesantren* Peace is characterised by one of Weber's three types of authority theory called “legal-rational authority”. This means authority is derived from a formal belief in

the law or natural law. Deference is based on certain principles which is not given to any specific leader (Williams, 2003). It can be described that *Pesantren* Peace operates according to logic, as a modern institution or at least having aspirations for modernity.

Pesantren Peace is owned by a foundation, in which its operation depends mainly on public trust. It receives funding from the local government and also donations from public; either from individual or organisational donors. The *Pesantren* views itself as accountable to various stakeholders such as financiers, particularly, government and private organisational donors and its organisational members and also the foundation.

Another issue that emerged from this study is that accountability in this institution is narrowly defined in terms of reporting its financial reporting affairs, which is only to certain stakeholders such as the foundation committee, the government and the private organisational donors. Meanwhile, some other stakeholders such as the general public or those who donate small amounts of money are not viewed as key audience or stakeholders for the purpose of reporting its financial reports. This implies that the willingness of the *Pesantren* to provide financial accountability is not free from the demands and enforcement from key stakeholders. This class of stakeholders (i.e., the government the institutional donors for example) usually have the power to impose on the recipient of the fund; in this case the management of *Pesantren* Peace, to make sure that the donations are used

properly so as to achieve the organisation's mission, hence, the coercive isomorphic pressure on the organisation to comply with the requirement. *Coercive isomorphism* refers to a situation in which the acts of the management of an organisation are the "results from both formal and informal pressures exerted on an organization by another party" (Dillard et al., 2004, p. 509). Thus, organisations that do not behave will consequently be treated as illegitimate and will face penalty, sanctions or contract, or as in the case of the pesantren, the possibility of the government withholding financial resources.

Another insight from this research is that the accountability mechanism of this institution ranges from being a formal accountability such as financial reports to an informal component like verbal explanation to its beneficiaries. This means that to some extent, the accountability practices in Pesantren Peace tend to be contractual, but to some degree, it tends to be communal in which the accountability relationship is less formal and the expectations are also less specified. Nevertheless, this clearly indicates that formal reporting is perceived as important in enhancing the level of accountability for Pesantren Peace.

Even though accounting is viewed as part of the religious duty and an integral component to achieve the organisational mission, accounting practices in Pesantren Peace are less developed. The way financial accountability is demonstrated by the management of this institution is still far from what is expected by society. The

evidence suggests that the unsatisfactory accounting and accountability practices within the organisation are due to the lack of management commitment, lack of qualified staff in financial administration, as well as a lack of understanding of the roles of accounting in enhancing accountability of the organisation. There is no evidence to suggest that this problem is caused by the resistance of such activities as religious activities.

Such insights, however, should be treated with caution since this research is a qualitative study based on the evidence from one Islamic boarding school, which has several unique characteristics compared to other *Pesantrens*. Therefore, the results of this study should be treated with caution when applied to other Islamic boarding schools. Moreover, further studies need to be done especially in the classical *Pesantren* in order to gain richer insights into accounting and accountability in Islamic religious organisations.

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APPENDIX

The list of people interviewed

No.	Interviewees Code	Position	No. of Interviews	Institutions
1	DR	Director	5	Pesantren Peace
2	HRM	Human Resources Manager	4	Pesantren Peace
3	TR	Head of Finance Section/ Treasurer	5	Pesantren Peace
4	ST	Student	1	Pesantren Peace
5	ST	Student	1	Pesantren Peace
6	HS1	Head of School Unit (Senior High School)	2	Pesantren Peace
7	HS2	Head of School Unit (Junior High School)	2	Pesantren Peace
8	FC	Foundation Committee Member	2	Pesantren Peace
9	AL	Alumni	1	Pesantren Peace
10	TC	Teacher	1	Pesantren Peace
11	SP1	Student Parent	1	Pesantren Peace
12	SP2	Student Parent	1	Pesantren Peace
13	SP3	Student Parent	1	Pesantren Peace
14	D1	Director	1	Organizational Donor
15	G01	Director	1	Dept of Religious Affairs(District Level). Dept of Religious Affairs (Provincial Level).
16	GO2	Section Head	1	Pesantren Supervisory and Development Agency (Prov. Lev.).
17	GO3	Director	1	