



INFLUENCE OF THE INTERNAL AUDIT FUNCTION TOWARDS ZAKAT PERFORMANCE

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ABSTRACT

Zakat institutions play an important role in Malaysian socioeconomics. The ability of zakat institutions to collect zakat has been undoubtedly proven by the increasing collection amounting to millions recorded every year. However, Zakat institutions are still largely being critiqued by society over its transparency and efficacy in zakat distributions. Thus, it seems very crucial for zakat institutions to maintain a gold standard of governance and good practice in order to overcome the issue of deteriorating public trust. One of the important components involved in achieving good governance of service, is through the provision of effective internal auditing. By taking into account four constructs for measuring the internal audit function which are organizational status, scope of work, top management support and competency, this research attempts to investigate the relationship between internal auditing and zakat performance. A quantitative method is used for this research. A set of questionnaires were developed and sent to the internal auditors (operation/quality auditors) of all zakat institutions in Malaysia. 94 questionnaires were returned from a total of eight zakat institutions. Results from the multiple regression analysis carried out concludes that organizational status and competency are a significant predictor for zakat performance. Organizational status seemed to be the strongest unique contributor towards zakat performance, followed by competency of internal auditors.

Keywords: internal audit, effective internal audit, zakat institution, zakat performance.

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INTRODUCTION

Internal Audit Function

The increased concern on corporate governance activities as required by the local and international professional and regulatory bodies (COSO, 2004; IIA, 2009) has strongly influenced the adoption and practice of internal audits. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA, 2017). An active involvement of the internal audit function may enable an organization to better achieve its objectives (Pundmann, Juergens, Young, Kovesdy,





& Wilson, 2017; Spencer Pickett, 2015). In general, internal audits encompasses evaluation, improvement of risk management, control, and the governance processes of an organization. The process provides independent, objective assurance to the management with regards to control activities, monitoring, compliance activities, risk assessment, security systems, governance, and business development. The understanding of and review on control activities, risk management and governance are then summarized into a report for the audit committee and board of directors.

The change in the business environment landscape and its complexity has led to business organizations needing to face a variety of risks. Consequently, a company and its board tend to expect more from the internal audit function specifically in providing an informed review and strategic recovery counter plan. The question as to the degree to which the internal audit function may add value to an organization is always an issue of contention since a high amount of investment is usually incurred. Internal auditing can be classified as effective when it is able to fully utilise the resources given in achieving the set goals. The guidelines for an effective internal audit function issued by Institute of Internal Auditors Malaysia (IIA, 2017), had listed several important characteristics required of an effective internal auditor for board member revision. Among them are a suitable level of knowledge, skill, experience, and commitment. An outstanding knowledge of the financial reporting process complemented with a vast experience in multiple industries and backgrounds can significantly strengthen the quality of an internal auditor's thinking. An effective monitoring, assurance and consultation mechanism can only be achieved with an equally dynamic internal audit process. Since effective governance may be signified by the existence of a comprehensive internal audit process, it is expected to enhance the reliability of financial reporting as well as the company's performance as a whole.

Zakat

Zakat is a standard form of alms obligated to every Muslim by Allah s.w.t. Zakat is defined as the allocation of one's particular property, according to its specific characteristics and channelling it to certain needy beneficiary groups or *asnaf*. The rich or wealthy, with a certain level of accumulated wealth, are obliged to pay zakat as a form of penitence from the sin of greed (Clarke, Craig and Hamid, 1996). *Zakat* is regarded as one of the most effective mechanisms of reducing poverty in society, especially in terms of improving the quality of life of those from the identified beneficiary groups (Farah Aida, Rashidah & Normah, 2012). *Zakat* is also regarded as a financial form of worship by which a devout Muslim is able to keep the commandment of Allah to meet the needs of the poor, by helping them live and providing them access to better economic security. Furthermore, the practice is obligatory on the wealthy as a means to help the poor while cleansing themselves of the sins of the heart such as being selfish and stingy as well as ensuring their earnings are pure as when they provide financial security for the needy Allah s.w.t protects theirs.

In Malaysia, the collection of *zakat* is managed by each respective state's *zakat* institution. *Zakat* institutions fall under the jurisdiction of the respective State's Islamic Council. In order to retain accountability and objectivity, the management of *zakat* is placed under an independent institution, but while being closely monitored by the Islamic Council as well as the Sultan of the respective states. This segregation is seen to provide stability and maintains the Islamic socio-economic system. It is also an integral part of a system that enables the highest level of development for the benefit of the beneficiary *asnaf* (Ab Rahman et. al., 2012).





Zakat institutions are considered a non-profit organization. In general *zakat* institutions are responsible for promoting, collecting, and distributing *zakat*. This includes ensuring that the *zakat* funds reach the intended *asnaf* in any way and form, as clearly described by the Syariah. As such, these institutions play a very significant role not only in maintaining the well-being of the Muslim socio-economy but also a large portion of the Malaysian economy as a whole. As *zakat* institutions are able to collect public money, society places a very high interest on the utilization and management of said collected *zakat* money. Since accountability of *zakat* institutions are placed at the forefront, they do well to apply good corporate governance so as to retain transparency and gain public confidence. That being said, some *zakat* institutions have even been corporatized and thus submit themselves to a stricter governance structure.

Problem Statement

Zakat is considered a tool to eliminate poverty, contribute to social security, lessen the income gap within the community, as well as enable economic freedom of the Muslim community (Saad, Al Jaffri, Norazita and Norfaiezah, 2014). For Muslim countries, it is also considered as a source of income channelling despite primarily functioning as an income tax fund.

Despite the success in the form of the increase of *zakat* collected each year, there are still certain issues and challenges that needs to be addressed. These include accounting, legal and human resources issues (Salleh, 2014). The public at large, specifically *Muslims* monitor the performance of *zakat* institutions closely. Since *zakat* institutions collect money from the public, they are naturally very concerned on how this money is being managed. This concern is bound to grow when the total *zakat* collection reported yearly reaches hundreds of millions. Another issue is the question on the percentage of poverty reduction that can be achieved through *zakat* distribution. That being said, the lack of public confidence towards *zakat* institutions is still common and unresolved.

One of the main issues discussed in previous researches (Saad, Al Jaffri, Norazita and Norfaiezah, 2014) is *zakat* surplus. *Zakat* surplus indicates that the *zakat* collection for a particular year is greater than the *zakat* distribution. This issue sparks the concern on the efficacy of *zakat* management. Moreover, there are also complaints over the inefficient methods of *zakat* distribution from dissatisfied *zakat* payers (Hairunnizam et al. (2009). The privatization efforts of *zakat* institutions which were initially to improve efficiency and transparency has nevertheless failed to increase the level of trust among *zakat* payers towards *zakat* institutions.

This scenario reflects the reputation of *zakat* institutions in the eyes of the public. Internally, these institutions need to improve their performance from time to time in order to remedy bad public perception on their management. A possible solution that may increase public confidence is for *zakat* institutions to increase reliability and accountability through effective corporate governance (CG) policies.

One of the ways to keep management and good governance on track is by having a comprehensive internal review and assurance process. Internal auditing is one of the most important components in the structure of corporate governance and is responsible for assisting the board and audit committee in fulfilling the monitoring and oversight function. Due to this reason, some *zakat* institutions have their own internal audit department in order to improve their internal control, risk management and governance systems. Corporate Governance consists of processes and structures used to direct and manage the business affairs of the company towards enhanced prosperity and corporate accountability (Suruhanjaya Sekuriti, 2017). The ultimate objectives of these codes are sustained long term shareholder value as well as the focused interest of other stakeholders through enhanced roles of the board and audit





committee along with the active participation of the internal auditors (Ramachandra and Rathish, 2017).

The ability of the audit report to codify, explain and systematically assess internal control systems, risks and governance has made it a key reason as to why it may contribute to the governance improvement of *zakat* institutions and eventually its performance. Bostan and Grasu (2010) and Dittenhofer (2001) proved that the internal audit function is crucial for corporate governance and the ability to drive the auditee and company towards better performance in future.

There are many key factors that enables internal auditing to be executed effectively. As outlined by the IIA (2017), some of the important factors are organizational status, scope of work, top management support and competency of the auditor. The higher the internal auditor's competency, the higher the effectiveness of the internal audit (Sukriah et al, 2009). So, will an effective internal audit make an organization or *zakat* institution perform efficiently and effectively? A study could be conducted on *zakat* institutions' governance and its link to internal auditing, which would anticipate input to help *zakat* institutions become more competitive and organized. Results from the study may be then used by the *zakat* institution to identify areas for improvement and subsequently reflect a better governance system. As such, this research would try to investigate the relationship between internal auditing and *zakat* institution's performance.

LITERATURE REVIEW

This chapter discusses the literature review on performance of *zakat* management in Malaysia based on two main aspects, namely (1) the *Zakat* collection-distribution gap and (2) the effectiveness of internal auditing in relation to *zakat* performance.

Zakat Institution

In Malaysia, as mentioned previously, matters relating to *zakat* fall under the jurisdiction of *zakat* institutions which are administered by the respective State Islamic Religious Councils (SIRCs).

In the early 90's there was a mass revolution done in the effort to improve and modernize *zakat* management. This action was taken in order to eliminate the traditional methods of managing *zakat* which dampened the true potential of the *zakat* institutions in the development of the Muslim socio-economy in Malaysia (Ahmed, Yuserie. Z, 2017). The Religious Council had agreed to totally separate the management of *zakat* under a new independent company known as the "Pusat Pungutan *Zakat*" (PPZ). This was to ensure that *zakat* management was totally separated from the administration of other Islamic affairs which can be very diverse. PPZ manages and handles issues of *zakat* collection on behalf of the Islamic Council (Ahmed, Yuserie. Z 2017).

Recently there are a growing number of studies being done on *zakat* institutions and corporate governance. Some of the issues investigated were the use of information technology in the betterment of *zakat* management (Widiastuti et al., 2021), the important of governance implementation (Saad, Al Jaffri, Norazita and Norfaiezah, 2014; Sawmar & Mohamed, 2019) and benefits of good governance to *zakat* institutions (Amalia, Rodoni, & Tahliani, 2018; Wahyuni-td & Fernando, 2020). Widiastuti et al. (2021) attempted to develop a strategy for governance optimization by creating a set of solutions and strategies based on the prioritization of problems occurring in a *zakat* institution. Meanwhile Sawmar & Mohammed (2019) went on to investigate governance practices and established a proposed framework on *zakat*





compliance improvement through good governance. Wahyuni-td & Fernando (2020) and Amalia et al. (2018) investigated the empirical evidence of the effect of good governance on a *zakat* institution.

Zakat Collection and Distribution

Since *zakat* institutions collect and manage *zakat* money from the public and are responsible for eventually promoting social justice in Malaysia, the concern and eye of the public would be especially focused on the accountability of this institution. Thus, it is paramount to the institution to prove to the public that matters pertaining to *zakat* are managed effectively and efficiently.

Zakat institutions need to act more efficiently in managing *zakat* funds as the effectiveness of *zakat* distribution depends largely on the system and management decisions carried out by said *zakat* institutions. As a result, *zakat* funds can have a great impact on the development of the economy, society, and the country, especially in the area of poverty alleviation among the masses (Mannan, 1983). The issue of trust between *zakat* payers and *zakat* institution can cause *zakat* to be undertaken via informal channels (Hairunnizam et al, 2009). Mohamad Dahan (1998) found that there were some negative cases such as the abuse of power and misappropriation of *zakat* trust money at the state level to a point that the public began to question the administrative transparency of *zakat* institutions. This should be taken seriously via the improving of the quality of work management and the integrity of employees in *zakat* institutions. An administrator's incapacity to curb these issues will invite negative responses from the community even though the performance of the institution's annual report on *zakat* collection is encouraging.

Preparing more flexible mediums of *zakat* collection is crucial to ensure all *zakat* payers are able to pay their *zakat* obligation in a timely manner (Sarif et al. 2013). This is necessary as despite the multiple approaches to collecting *zakat*, the percentage of uncollected *zakat* from eligible taxpayers are still high (Ab Rahman et al. 2012; Bakar et al. 2007). Thus, consideration on a digital payment option is relevant. Aligned with the current changes happening in the business landscape and daily life, people are leaning towards the use of online or digital payment options. Technology is proven to provide a positive marketing effort in campaigning on *zakat* and its contribution to increase the access to *zakat* payers (Hudaefi et al. 2021; Al-Anshori et al. 2020). People are also concerned over fairness and flexibility in the allocation method for *zakat* calculation (Sawmar & Mohammed, 2019). Difference views from different schools of thought (*mazhab*) (Sawmar & Mohammed 2019; Abdul Rahman 2012) for example in the recognizing of loans and assets under lease purchase contracts may spark the issue of fairness among *zakat* payers. Furthermore, some *zakat* payers would like to spare some portion of their obligated *zakat* for their relatives and neighbours, but unfortunately this portion would not be eligible for tax exemption.

Besides that, the distribution gap and its effectiveness has always been considered an unresolved issue of contention. Many researchers feel that the *zakat* collected has unfortunately been ill fittingly and ineffectively distributed without earnest intention and careful consideration (Ab Rahman et al., 2012; Hassan, 2005; Lubis et al., 2011). Consequently, poverty and its related issues are still rife (Ab Rahman et al., 2012; Hassan, 2010). Though the responsibility of poverty eradication is not wholly under the responsibility of *zakat* institution, the public still tends to link *zakat* distribution ineffectiveness with this failure. Leakage problem in *zakat* institutions as explicated by Sanep et al. (2006) had caused certain groups of Muslims to choose to pay their obligated *zakat* through informal channels. For example, due to the lack of publicity and the low level of awareness in the community, complaints on *zakat*





allocations not reaching the intended groups are common (Abdul Rahman et al. 2012). Avoiding the paying of *zakat* through the mandated *zakat* institution, which represents the government's Islamic leaning intent, may cause injustice towards the *asnaf*. Easily accessible *asnaf* might have received more than what is needed, meanwhile remote groups of *asnaf* would most possibly be left out. Besides that, lacking technical efficiency such as management accounting knowledge (Abdul Halim et al., 2005; Ahmad & Ma'in 2014; Azizah et al. 2005; and Syed Yusuf et al. 2011) and bureaucracy issues (Abdul Rahman 2012) in *zakat* distribution may also contribute to this issue (Ahmad & Ma'in, 2014).

The perception of *zakat* payers towards the efficiency of *zakat* institutions may influence their trust on said institutions (Salleh, 2014). Many researchers indicate that *zakat* payers abstain from *zakat* institutions due to distrust (Mohammad 1990; Hairunnizam 2009; Murtala et al. 2011). A lack of transparency and disclosure on the management of *zakat* funds causes such distrust (Sawmar & Mohammed, 2019). Thus, *zakat* institutions must first understand the determinants which influences a *zakat* payers' trust. *Zakat* institutions do well to take into account the perception of *zakat* payers on the board of directors, legitimacy of management, stakeholders' orientation, effectiveness of governmental *zakat* institutions, (Murtala et al., 2011), timely independent external audit review, presence of an independent rating body for scoring *zakat* institutions (Owoyemi, 2020), and accessible transparent reports on *zakat* management which includes both the collection, distribution and management of *zakat* as a whole. All of the attributes indicate the need for effective governance in *zakat* institutions to live up to public expectation. Moreover, doing so can lead to the sustainability and further positive development of *zakat* institutions (Abioyea, Mohamad, & Adnan, 2011; Abdul Rahman, et al, 2016).

Internal Audit

Effective implementation of Good Corporate Governance (GCG) in *zakat* institutions will be able to assist the management in their effort to conduct internal supervision of the company to ensure effectivity and efficiency. One of the important tasks of the internal audit (IA) in the implementation of GCG is to investigate and assess the internal control and efficiency of the company's operational implementation independently (Wulan, 2018). Currently, the role of IA has shifted in practice. Initially, IA functions as a watchdog, consultant, and catalyst (Wulan, 2018). Now, the internal audit's function is to improve and add value for the entity's operation (Vallabhaneni, 2014). Previous research indicated that companies tend to use the internal audit function due to the belief that internal auditing is an important tool of corporate governance (Hazem R. & Roberts, 2018; Sulub, Salleh, & Hashim, 2018) that is able to provide risk insight and control reports (Eulerich, Kremin, & Wood, 2019). KPMG (2007) highlighted the expectation of the top management for internal auditing to play a larger role, especially in value preservation and value creation. Value preservation describes the focus of an internal audit on control, meanwhile value preservation relates to a focus on performance.

The internal audit may add value to the company only when it is able to provide high quality insights which are significant to the organization as a whole (Rijamampianina, 2016). The impact of internal auditing is dependent on both the external and internal audit which works to support the environment of transparency. IIA (2010) defines the effectiveness of an internal audit "as the degree to which the established objectives are achieved with a certain level of resources given". Based on the effective internal auditing guidelines (IIA, 2017), demonstrating compliance on the Core Principles for the Professional Practice of Internal Auditing (Core Principles) indicates that the internal audit is effective in enhancing and protecting organizational value. There are ten attributes which contribute to the effectiveness





of an internal audit as detailed in the Core Principles. It consists of; 1. Integrity, 2. Competence and due professional care, 3. Independent, 4. Alignment with company's strategies, objectives and risks, 5. Adequate position and adequately resourced, 6. Quality & continuous improvement, 7. Communicates effectively, 8. Provides risk-based assurance, 9. Insightful, proactive and future-focused and 10. Promotes organizational improvement. Since the scope of an internal audit may vary based on the audit charter of each company, the degree of effectiveness may differ as well for each respective company (Al-Twaijry et al., 2003). This research will focus more on four specific attributes which are competency, adequate position (organizational status), support from top management which is part of adequately resourced and scope of work.

Adequate position refers to the reporting structure of an internal audit in an organization. According to the IIA (2017), the chief audit executive (CAE) must report directly to the audit committee. The position of the CAE must be of a sufficiently senior level thus reflecting the authority and power assigned to it. Good organizational status also enables an audit to run smoothly and garner useful audit findings that can lead to proper a report (Mahzan & Hassan, 2015). The appropriate authority and position should allow the internal auditor to easily access any information or documents. The delimitation of scope imposed will also enable a more effective audit which scrutinizes any process, system, document or person for chances of ineffectiveness or inefficiency as well as fraudulent activities (Erasmus & Coetzee, 2018).

Besides having a direct channel of communication with the audit committee, the position of the CAE should be sufficiently high to ensure professional judgement without any pressure from others. This includes being independent from the management and being able to make assessments of staff and management activities (Mahzan et al.2012). In addition to that, an internal audit with a strong organizational status that is unbiased and reports functionally to the audit committee and administratively to the executive management are likely to enhance early fraud detection, prevention and reporting (Kabuye, Nkundabanyanga, Opiso, & Nakabuye, 2017).

An internal audit may only fulfil its role in assisting the management to achieve the company's objectives when it is sufficiently resourced either financially or socially. Problems such as understaffing and inadequate support from top management (Mihret & Yismaw 2007) hinders the effective functioning of an internal audit and the achieving of its full potential (Baharud-din et. al. 2014; Bello et al. 2018; Alkebsi & Aziz 2017; Mihret & Yismaw, 2007). Adequate top management support would ensure the internal audit is able to access sufficient funds to operate, maintain the internal auditor team size (Drogalas, Karagiorgos, & Arampatzis, 2015), ensure continuous professional upskilling (Drogalas, Eleftheriadis, Pazarskis, & Anagnostopoulou, 2017), enhance risk management and limit the risk of fraud (Alazzabi, Mustafa, & Karage, 2020) while subsequently improving the effectiveness and performance of an organization (Bello et al., 2018). However, previous research has also indicated that despite support provided to internal auditors, the approval of allocated resources (Steinbart, Raschke, Gal, & Dilla, 2012) may still limit the activities of the internal audit. Top management support also seems to have no effect on the decision of the internal audit on whether or not information technology is used (Alkebsi & Aziz, 2017).

Competency includes the appropriate and necessary skills possessed by the internal auditor through experience, training, and continuous professional education (CPE) (IIA 2017). Coralita & Rahardjo (2012) described that the ability of an auditor to perform an audit carefully, accurately, and objectively can be defined by the ability of the auditor to accurately apply the knowledge and skill they already possess. The higher an auditor's competency, the higher the effectiveness of the internal audit (Sukriah et al, 2009; Bello et al. 2018; Drogalas et al. 2015). However, research done evidence that there exists a low level of competency and knowledge





among internal auditors, especially so in the public sector (Ahmad et. al., 2009 & Mihret & Yismaw, 2007). Lack of exposure on the right auditing techniques and methodology is a problem faced by the internal auditors in the private sector. However, this matter is interconnected with the aspect of top management support as the provision of sufficient resources to the IA in the area of staff training, recruitment and professional development to improve on their competency largely depends on top management approval (Bello et al., 2018). There is also a need for internal auditors to equip themselves with information technology knowledge and skill, in line with the current changes in the business operation and risk landscape (Betti & Sarens, 2020; Islam, Farah, & Stafford, 2018; Steinbart, Raschke, Gal, & Dilla, 2016). The demand of internal audit consultation with regards to risks associated with information technology and security is increasing, thus, internal auditors are expected to possessed digital knowledge and skills (Betti & Sarens, 2020).

RESEARCH METHODOLOGY

This study uses a quantitative research method. Data collection in this phase was achieved through structured questionnaires containing closed-ended questions adapted from the “Evaluation of Internal Auditors - Questionnaires” by the Audit Committee Institute, sponsored by KPMG (2017). The survey questionnaire is 8 pages long and encompasses demographic sections and two major constructs of the present study; namely, internal audit function and the efficiency of *zakat* performance which are all measured on a five-point, Likert scale. The Likert scale is designed from negative to positive (e.g., ‘strongly disagree’ to ‘strongly agree’) and this order remains as it is, i.e., it remains as a five-point scale throughout the instrument. The population selected as a sample size includes all 14 *zakat* institutions in Malaysia and questionnaires were distributed to them. The unit of analysis are Chief Internal Auditors (CIA), Internal Auditors (IA) and Quality/Operation Auditors. In the second phase of the study, a randomized sampling technique was applied. The questionnaire used was developed and distributed using an electronic survey tool called Google Forms. Before being able to approach relevant respondents and collect data, an effort had to be put into getting the needed permissions from the respective *zakat* institutions. The email addresses of the targeted respondents were then shared by the research executives at the *zakat* institutions. A pilot study was conducted on 30 respondents. The four variables that were supposed to form the construct of the independent variable was tested. One can observe in Table 1 that the Cronbach’s alpha for all four variables was around 0.80 and above which is a good score. The results show all IA sub-constructs are suitable to measure IA effectiveness.

Table 1: Cronbach’s Alpha for Independent Variables

Construct	Number of items	Alpha
Organizational Status	9	0.864
Scope of Work	6	0.870
Management Support	10	0.895
Competency	13	0.898

The same test was done on the construct measuring the construct of *zakat* operations. Three sub-constructs were intended to be measured by this construct. By analysing the Cronbach’s alpha of the variables in Table 2, it can be observed that the Cronbach’s alpha for all variables was around 0.80 and above, which is a good score.




Table 2: Cronbach's Alpha for Dependent Variables

Construct	Number of items	Alpha
Distribution performances	7	0.919
Collection performances	7	0.854
Counter internal control	10	0.966

DATA ANALYSIS & RESULTS

Descriptive Analysis

This study analysed the responses of 94 respondents from eight out of the 14 *zakat* institutions, which consisted of the Chief Audit Executive (CAE) and Internal Auditors (IA) (operation/quality). Table 3 sets out the respondents' basic facts. In all, 52 respondents (55.3 percent) were men, while only 42 (44.7 percent) were women. The age group of the respondents were between 41 and 50 years of age (43.6%) and 31 years of age, under 40 (38.3%) years, between the ages of 21 and 30 (10.6 percent) and the ages of 51 and 60 (7.4 percent). More than half of the respondents had 10 years of work experience (61.7 percent), followed by respondents with 5 to 10 years of working experience (28.7 percent), 2 to 4 years' experience (8.5 percent) and only one respondent with less than 2 years of work experience. Under academic history, most respondents had a university degree (35.1%), while some had masters /doctoral degrees (39.4%) and others had professional certificates (13.8%). In terms of departments, half of the respondents were attached to the Business Management Unit (60.6%), some with the Accounting Unit (17%), and others with the Tech / IT Unit (10.6%). A small number of respondents were from finance (5.3%) and engineering (6.4%). Consistent with the study's objective, most respondents were Internal Auditors (63.8 percent), while the rest were Quality Auditors (18.1 percent) and related person from other (18.1 percent) positions. In terms of professional accreditation, 26 respondents (27.7%) were members of the internal audit team, 17 were from finance / Islamic finance (18.1%), 7 were from accounting (7.4%), two from IT (2.1%) and the rest were respondents with no professional qualification.

Table 3: Respondents' Background

	Frequency	Percentage
Gender		
Men	52	55.3
Women	42	44.7
Age		
21-30	10	10.6
31-40	36	38.3
41-50	41	43.6
51-60	7	7.4
Working Experience		
Less than 2 years	1	1.1
2-5 years	8	8.5
5-10 years	27	28.7
10 years and above	58	61.7





Academic Background		
SPM/STPM/Certificate	9	9.6
Diploma	13	13.8
Bachelor's Degree	33	35.1
Professional Certificate	2	2.1
Master/PhD	37	39.4
Department		
Accounting	16	17.0
Finance	5	5.3
Business Management	57	60.6
Computer/IT	10	10.6
Engineering	6	6.4
Position		
Internal Auditor	60	63.8
Quality Auditor	17	18.1
Others	17	18.1
Professional Member		
Accounting	7	7.4
Internal Auditor	26	27.7
Finance/Islamic	17	18.1
Finance		
IT	2	2.1
None	42	44.7
Total	94	100

Inferential Analysis

In evaluating whether the model, in which all independent variables (IVs) were added to, is successful in predicting *zakat* performance (DV), the Model Summary assessment on Table 4 was observed. The R square in the data analysis is 0.575, which means that 57.5% of the variance in *zakat* performance is explained by the combination of independent variables. The adjusted R square is quite lower than the squared R with a value of 0.556. As $p < 0.01$ the null hypothesis can be rejected. Therefore, it can be concluded that the model has considerable predictive capabilities in predicting *zakat* performance.

Table 4: Model Summary Assessment

R Square	Adjusted R Square	F	P
0.575	0.556	30.07	0.00*

**significant at $p < 0.01$*

Evaluating the Independent variables and dependent variables

First the Correlation Matrix was assessed using the Pearson Correlation. As the correlations are actually the basis of the multiple regression analysis, it serves as a good preliminary indication of the relationship between the predictors and the outcome. The Pearson Correlations are summarized in the table below.




Table 5: Correlation Between the Independent Variables and Zakat Performance

Independent Variables (Component of Effective Internal Audit Function)	Pearson Correlation	p
Organizational status	0.71	0.00*
Scope of work	0.54	0.00*
Management supports	0.68	0.00*
Competency	0.70	0.00*

**significant at $p < 0.01$*

From Table 5 above, all IVs correlate positively and is significant towards *zakat* performance (DV). Cohen (1988) suggested that a Pearson correlation value greater than 0.50 indicates a stronger relationship between variables.

Meanwhile the results from the multiple regression analysis are as detailed in table 6 below.

Table 6: Summaries of Multiple Regressions

IV	B	SE B	β	p	sr	sr ²
Organizational status	.451	.153	.376	.004	.297	0.08
Scope of work	-.016	.125	-.013	.900	-.013	0.0001
Management supports	.165	.137	.162	.230	.127	0.02
Competency	.346	.169	.288	.044	.212	0.04

Based on the summaries of the multiple regression analysis, only two of the internal audit components act as a significant predictor for *zakat* performance, namely organizational status and competency. Organizational status was found to correlate statistically in significance to *zakat* performance, with a positive relationship of strong strength ($r = 0.71$ $p < 0.01$). This would mean that higher level of internal audit capacity in terms of organizational structure, roles, reporting, independence, authority/power, and auditee cooperation would result in higher *zakat* performance. Judging from the standardized beta-values, organizational status also has the strongest unique contribution towards *zakat* performance. Considering that the beta coefficient can be interpreted as a correlation, it can be concluded that organizational status has a statistically significant moderate effect on *zakat* performance with $\beta = 0.376$ and $p < 0.01$ (Acock, 2008). Furthermore, from Table 6, it can be derived that organizational status uniquely accounts for 8% of the variance in *zakat* performance and that R square would fall by 8% if it were left out of the model. In conclusion it can be said that, as organizational status is moderately positively related to *zakat* performance.

The competency of internal auditors was found to correlate statistically in significance with the effectiveness of *zakat* operations, with a positive relationship of strong strength ($r = 0.70$ $p < 0.01$). As such, the higher the level of internal auditor's competencies in terms of educational/professional qualification, skill, experience, proper audit plan, sufficient number of staff and audit tools, the higher the level of *zakat* performance. Based on the standardized beta-values, competency has the second strongest unique contribution towards explaining *zakat* performance. Considering that the beta coefficient can be interpreted as a correlation, it can be concluded that competency has a statistically significant moderate effect on DV with $\beta = 0.288$ and $p < 0.01$ (Acock, 2008). Furthermore, from Table 6, it can be derived that competency uniquely accounts for 4% of the variance in the *zakat* performance and that R square would fall





by 4% if it was left out of the model. In conclusion it can be said that competency is moderately positively related to the *zakat* performance.

Discussion and Policy Implication

The internal audit department plays an important role in contributing towards performance improvement of an organization. This fact however is made read only through the contribution of many factors. The support from the top management will definitely serve as a positive signal to the whole organization that the internal audit department is crucial. Other attributes that enable an effective internal audit are the clear scope of work, competency of the internal auditor and the status of the IA department in the given organization. This research is conducted to investigate the relationship of internal auditing with the performance of the *zakat* institution. Results from the multiple regression analysis concludes that only organizational status and competency are a significant predictor for *zakat* performance. Organizational status seems to be the strongest unique contribution towards explicating *zakat* performance, followed by the competency of internal auditors.

Based on these results, it can be concluded that the existence of an internal audit structure in a *zakat* institution is crucial to ensure positive impact on its performance. A clear structure of authority, function and accountability assigned to the internal audit team by the top management would propose support, power and responsibility assigned to the performance of the audit tasks. Support from the top will encourage other business units and functions to provide full cooperation to the internal auditors. It can also soften the acceptance of other employees towards the internal audit job scope. Another important predictor of *zakat* institution performance is the competency of the internal auditor. The capability of the internal auditor in understanding the whole business operation and its control would help them perform a high quality audit. The only route to gaining this level of understanding is through the continued gaining of knowledge, and a professional background paired with extensive experience. A competent internal auditor would be able to provide deep insight on every stage of the audit process and would be able to access current and future risks associated with operations. Thus, suggestions and recommendations from the internal auditor would be very important for the *zakat* institution to improve on any weaknesses, plan for the future and eventually improve their performance.

The results of this research project could potentially affect various efforts carried out by *zakat* institutions as well as various aspects of good governance practices. Four separate areas are to be considered. Firstly, internal auditors could benefit extensively from the reported empirical results in guiding their roles and functions in term of their organization status, scope of work, management support and competency. Secondly, the results point to the need for *zakat* institutions to develop best governance practices by including internal auditing that contributes to the high performance of a *zakat* institution via collection, distribution and services. Thirdly, *zakat* payers should exercise their rights in influencing the direction of a *zakat* institution activities so that it reflects on their responsibilities to practice transparency and efficacy with regards to *zakat* collection, distribution and services provided. This would ensure that the *zakat* institution acts towards enhancing its accountability levels. Finally, academic research could benefit from the results garnered by first recognizing the fact that there exist heterogeneous levels of effectiveness in the internal audit function across different *zakat* institutions which would indirectly explains the wide research area available for extended exploration.





CONCLUSION

Research in the specific area of internal auditing effectiveness in the context of *zakat* institutions are noticeably growing and remains the subject of ongoing study globally. This research project examined issues related to internal auditing towards *zakat* performance across the dimensions of organizational status, scope of work, management support and competency. This study reports novel evidence that only two of the internal audit components act as a significant predictor for *zakat* performance, which are organizational status and competency. Overall findings are expected to serve as a basis for future studies on good governance and practices in *zakat* institutions.

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