Implementing good corporate governance in zakat institution

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ABSTRACT

Implementation of good corporate governance in zakat institution is very important to strengthen the reputation of zakat institution and gain trust from Muzakki (zakat payer) for long term sustainability. Zakat institution has an intermediary function that is collect zakat from zakat payer and pay zakat for the recipient (mustahik). Therefore the reputation from zakat institution is very important. The study has the aims to describe the general concept of corporate governance and how to apply the concept of corporate governance to zakāh administration in Indonesia. This study uses the methodology of the qualitative approach by describing the implementation of Zakat governance through an annual report from Rumah Zakat in 2015. The result of this research can describe the general concept of corporate governance and how to apply the concept of corporate governance to zakāh administration in Indonesia, especially in Rumah Zakat Indonesia.

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Introduction

Zakat is one of the five basic pillars in Islam. Its relationship with the macroeconomic system can be accessed through poverty eradication instrument, income redistributive device and stabilization mechanism. Zakat also narrows down the economic inequalities in the community whereby the rich may not grow richer and the poor not become poorer. In addition, proceeds of zakat are not only allocated to the destitute and the poor, but also for the provision of social security to unemployed individuals. In other words, zakat is a vital instrument for overcoming unemployment where the money received by all categories of poor can be used to start small scale businesses. In Malaysia, matters pertaining to zakat are under the respective state rulers and the state government. Hence, there is no standardization in the management of funds among the zakat institutions (ZIs). As a result of this, there is an imbalance in performance among the ZIs primarily because of the different approaches adhered and practiced by the various states both in collecting as well as in distributing the proceeds of zakat. In continuance to this, ZIs must be efficient in performance in order to align and integrate into the mainstream economy (Noor et al, 2015).

Implementation of zakat governance is very important to strengthen the reputation of zakat institution. Many research has been conducting to describes the implementation of zakat governance both in Indonesia and also in abroad like as Malaysia and Nigeria.

According Noor et al (2015), Zakat is one of the five basic pillars in Islam. It is an obligation of all financially able Muslims to give a specific amount of their wealth to predetermined beneficiaries. In ensuring zakat obligations are fulfilled, zakat institutions are set up to manage zakat efficiently. Although, zakat institutions have been operational for almost a hundred years in Malaysia, their performances have yet to reach full potential. It is of prime importance that these institutions are managed effectively and efficiently because of their pivotal role in the society

According to Razimi et al (2016), Zakat is one of the five pillars in Islam where it can be assumed as the obligation for those who admitted they are the believer and hold a faith only to Allah S.W.T. Zakat is the way of giving away a specific amount of wealth somehow with a certain settings and requirements to those who recognized as al-mustahiqqin (beneficiaries) and then the maqasid (purpose) of paying the zakat is to guarantee the achievement of socioeconomics impartiality and justice. A Quran verse explained

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[2:215] "They ask you about giving: say, "The charity you give shall go to the parents, the relatives, the orphans, the poor and the traveling alien." Any good you do God is fully aware thereof."

According to Amalia (2019), Good governance is a crucial issue in the performance of zakat institutions, as zakat institutions are non-profit public organizations that are trusted by the community. In Indonesia, the huge potential of securing zakat funds by zakat institutions is currently not optimized due to the lack of public trust. By utilizing a Confirmatory Factor Analysis model, this research aimed to examine dimensions of the principles of good governance namely, transparency, accountability, responsibility, independence and fairness practiced among zakat institutions. Data was obtained from interviews with leaders and staff of zakat institutions in Indonesia. Findings of the study suggest that the dimension of transparency contributed most to good governance followed by accountability, responsibility, and independence. It can be concluded that good governance in zakat institutions has been well implemented only in some aspects but not in totality. This research could be used to create guidelines on zakat management governance while serving as a reference for formulating policies related to the standardization of good governance in zakat institutions (Amalia, 2019).

According to Hussain et al (2018), The confidence level of zakat payers towards zakat institutions is at unsatisfactory level. The weakness in the zakat institution's governance is identified as a factor that contribute to the issue of low public confidence. This study tests whether service quality fit into the constitution of zakat institution's governance to address the existing issue. In this study, service quality in zakat institution's governance is discussed from the perspective of the stakeholder theory. Survey method was employed for data collection. The data was analyzed using exploratory factor analysis and confirmatory factor analysis at first order level. The result from 431 zakat payers shown that service quality is significant and need to be included in the model of zakat institution's governance. This study contributes to the literature by enriching discussions on service quality in the zakat institution's governance.

According to Ahmad et al (2016), Since the collapse of the Sokoto Caliphate at the hands of the British imperial power, zakāh and waqf in Nigeria have remained underdeveloped. In 1999, when the Zamfara State government declared the implementation of Shariah, these institutions were reestablished. Since then, laws have been enacted for these institutions; particularly between 2000 and 2003. However, annual reports presented since 2000 till date have not been impressive. Owing to this low performance, it is certain what is missing is a high level of corporate governance that protects the interest of all stakeholders, which can help facilitate a institutions' success.

Zakat plays a very significant role in Muslim society with the objective to uphold economic and social justice (Norazlina & Abdul Rahim, 2011; Patmawati, 2008; Qardawi, 2007) in Hussain et al (2018). The achievement of this objective would contribute to poverty eradication and solving social problems. Given the importance of zakat to the economy and society, zakat institutions have been established and these institutions are accountable for ensuring the achievement of the objectives of zakat collection and distribution (Ram Al Jaffri, Norazita Marina, & Norfaiezah, 2014) in Hussain et al (2018). In Malaysia, zakat is administered by State Islamic Religious Council (SIRC) (Kamil, 2002; Md. Zyadi & Mariani, 1999; Ram Al Jaffri, 2010) in Hussain et al (2018). SIRC's are responsible in managing zakat activities as preserved in Federal Constitution (Norazlina & Abdul Rahim, 2011) in Hussain et al (2018). In Indonesia zakat was managed by Lembaga Amil Zakat (LAZ, private) and Badan Amil Zakat (state ownership, BAZ, BAZNAS).

Zakat institutions are free to set their own zakat administration and this resulted in different practices adopted in some states. As institutions hold the public trust for their survival, zakat institutions are exposed to the general assessment of the community (Sani Adamu & Ram Al Jaffri, 2016) in Hussain et al (2018). However, recently, a lot of issues and controversies facing by the zakat institutions. One of them is the issue of loss of public trust towards the institutions. Issue of low confidence towards zakat institutions stipulates proactive action from various parties and attracts a lot of attention especially from Muslim society. Every year, complaints against zakat institutions were reported in media especially pertaining to zakat distribution (Mohd Harzrul, 2010) in Hussain et al (2018). According to Hidayah and Norziana (2014) in Hussain et al (2018), public demand more transparency in zakat distribution. Although the collection of zakat increases from year to year, the increment is in tandem with this issue. Several researchers have highlighted this issue (Aidit, 1989; Hairunnizam, Sanep, & Radiah, 2009; Mohd Asri, 2009; Patmawati, 2008; Sanep & Hairunnizam, 2005; Sanep, Hairunnizam, & Adnan, 2006) in Hussain et al (2018). Sanep et al. (2006) and Raja Adzrin, Ahmad Marzuki and Muhammad Sufiyudin (2015) in Hussain et al (2018), found that majority of the respondents are not satisfied with the management of zakat institutions. Besides, unconfident attitude towards zakat institution is one of the reasons for individuals to pay zakat via informal channel and lead to assumption that zakat fund has been abused (Aidit, 1989; Hairunnizam et al., 2009; Mohd Asri, 2009; Sanep & Hairunnizam, 2005) in Hussain et al (2018),

Adoption by the paper of Cadbury Committee, 1992; Hampel Report, 1998) in Hussain et al (2018), this study attempts to describes zakat institutions on how they could improve their zakat governance in order to gain public confidence. It is undisputable that good governance ensures continued existence of the organization (Cadbury Committee, 1992; Hampel Report, 1998) in Hussain et al (2018), Healthy organization is the one that able to inspire this concept into its working culture. This would guarantee that they are always relevant to their stakeholders (Hampel Report, 1998; OECD, 2004) in Hussain et al (2018). Study relating to zakat governance is important as it provides opportunity to minimize the existing gap in the literature. At present, not much studies are available about zakat governance (Norazlina & Abdul Rahim, 2011) in Hussain et al (2018), Therefore, understanding relating to this phenomenon

of zakat governance is limited. Therefore, in this study, the zakat governance will be discussed more detailed and enhancing the understanding of zakat governance.

The main objectives of this paper are (i) to understand the concept of corporate governance, (ii) to apply the concept of corporate governance to zakāh administration in Indonesia. Research Questions in this paper are (i) what is the general concept of corporate governance?, (ii) how to apply the concept of corporate governance to zakāh administration in Indonesia?

This paper focuses on the implementation of corporate governance in the Indonesian zakāh institutions. However, the focus is limited to the good corporate governance in Rumah Zakat Indonesia through analyze the annual report of Rumah Zakat in 2015.

Formulating policy and strategy for Zakat Institutions' Governance

The understanding about good zakat institution's governance would assist the authorities to formulate policy or strategy to strengthen the governance of zakat institutions. Although zakat is compulsory to eligible Muslims, zakat institutions cannot take things for granted. Zakat administration must undergo continuous improvement to boost public confidence. Such improvement is vital to convince Muslims to perform their noble responsibility. If Muslims are very confident with zakat institution's governance, the tendency for zakat collection to increase is higher and thus reducing zakat leakages. And this would allow more funds being distributed to zakat recipients. However, in the present scenario, not all Muslims have strong confident with zakat institution's governance. Why these things happen? Probably there is some deficiency in the governance of zakat institutions. Besides that, the different style of management practiced by zakat institutions would discourage people from paying zakat to the institution. So what should constitute governance in zakat institutions? How strong the magnitude of the observed variables in zakat institution's governance? All these research questions need to be investigated since there are many factors that need consideration to attain good zakat institution's governance (Hussain et al (2018).

In a country where zakat is one of the necessary components for development, the way to ensure optimum utilization of zakat is through the integration of zakat institution into the mainstream economy. For zakat institutions to be integrated into the mainstream economy, efficient performance is required. Based on hermeneutic and demarcation approaches, this study proposes the phases of zakat integration in Malaysia, namely; minor, partial and full integration. As such, this study also introduces several indicators to identify the phases of zakat institutions' integration into the mainstream economy (Noor et al, 2015).

Zakat is the most suitable ways of Islamic taught to encounter with the issues of poverty in Muslim society by allocation of one wealth to a significant beneficiary. In order to collect and to distribute the zakat, Malaysia is doing well when they establishing an institution by regional to manage the zakat. Pusat Urus Zakat (PUZ) is a trusted body with a role to make zakat management is well organized, efficient and effective. Even Malaysia has an institution that manage the zakat by regional, the problem and issue still rose up for some reason, a lot of complaints and case of zakat distribution is not really receive to those who qualify is doubted. This paper will further discuss about the Malaysian perspective of inefficiency issues encountered, potential payer and capacity building (Razimi et al, 2016).

Therefore, zakāh and waqf cannot be neglected. It is against this background that this research examines the corporate governance of Nigerian zakāh and waqf institutions within the context of their existing laws, primary and secondary sources of Islamic law, and contemporary studies on the subject. The methodology applied in this study was a qualitative research method using library materials and the internet. This paper concludes that the zakāh and waqf sectors will perform better and actualize their inherent objectives if high levels of corporate governance are entrenched in these institutions (Ahmad et al, 2016).

Definition of corporate governance from conventional and Islamic point of views

The Organization of Economic Cooperation and Development (OECD) defined corporate governance as the "Set of relationships between company's management, its board, its shareholders and other stakeholders." This definition covers all parties that are affected by the governance of a corporation. Despite the fact the nonprofit organizations such as zakah and waqf were not the intended target of this definition, its objective was to serve the interests of every corporation that has a diverse set of stakeholders. Similarly, Wolfensohn, the former president of World Bank defined corporate governance as "Fairness, transparency and accountability". This definition compliments the above OECD definition which focuses on the parties' relationship with the management of a corporation without clearly stating its essential elements. His definition is very precise on the objectives of corporate governance and its characteristics, being suitable for zakāh and waqf institutions as well.⁹ Such institutions require high levels of fairness, transparency, and accountability if the economically able are to be encouraged to give more from their wealth (Ahmad et al, 2016).

In light of the above, the management of a zakāh and waqf corporation must be characterized by an unwavering principle of tawhīd because this is what will assist it to do justice to its work and increases its muraqabah dhatiyyah (cautioning of oneself against Allah's wrath). The management also must constitute a shūrā and fatwa council to do researches and come out with the best opinion that is most compatible with the Maqāṣid al-Sharī'ah (objective of Islamic Law). This is because new issues not yet addressed by Islamic Law will always arise. The Shariah supervisory process also should lie on resolutions rolled out by the shūrā (consultative forum) and fatwa council, and then the qadi (judge) will have overriding powers over all the decisions of the zakāh and waqf based on advice from the shūrā council. On the aspect of religious audits and zakāh collection, protecting the zakāh assets and public sensitization should be part of the functions of hisbah. The governor of a state should perform his constitutional role by protecting and defending

the law and ensure an absence of impunity for corrupt zakāh and waqf officers. It worth noting that Lewis's definition mentioned above has already been implicitly considered in the Qur'an:

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

وَقُلْ اَعْمَلُوا فَسَيَرَى اللَّهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ وَسَتُرَدُّونَ اِلَىٰ عَالِمِ الْغَيْبِ وَالشَّهَادَةِ فَيُنَبِّئُكُمْ بِمَا كُنْتُمْ تَعْمَلُونَ
(9:105)

“And say, “Do [as you will], for Allah will see your deeds, and [so, will] His Messenger and the believers. And you will be returned to the Knower of the unseen and the witnessed, and He will inform you of what you used to do...” (Surah al-Tawbah, 9: 105)

Corporate governance in the administration of Zakāh and waqf in Islam

Historically, there is no name for 'حوكمة' (hawkamah) which is a newly coined Arabic word for “corporate governance”. However, this term has been approved by the Egyptian Department of Linguistics. Despite this, there can never be a practice of corporate governance on zakāh and waqf like that practiced by the Prophet (PBUH) and his companions. Since the revelation of the Qur'an 9: 60 and 9: 103, which ordered the administration of zakāh, and chapter 2: 177 which gave the right to accept voluntary donations in addition to zakāh, the Prophet (PBUH) left a model of Islamic corporate governance on Islamic revenues out of which is zakāh and waqf. This is because protecting the interest of stakeholders is the bedrock of corporate governance, as well as transparency and accountability, as emphasized by the former president of the World Bank. All these were practiced by the Prophet (PBUH) in the best way they could be practiced (Ahmad et al, 2016).

The high standards set by the Prophet (PBUH) encompass all aspects of corporate governance in that the need for accountability, fairness, transparency, and the protection of all stakeholders are the ingredients of justice which he preached and practically implemented. In practice, the Prophet (PBUH) exemplified the high moral rectitude and integrity that should be required from zakāh administrators. On the aspect of corporate governance that is concerned with protection of interest of all the stakeholders, the Prophet (PBUH) announced that, the zakāh is taken from the rich and returned to the poor, and even he as the head of the Islamic State and his family, were forbidden from taking from zakāh, no matter how little. Also, since accountability is an aspect of corporate governance, if there was no other hadith except the hadith of Ibn al-Lutbiyyah. it would suffice. To this effect, al-Bukhari narrated on the authority of Abū Humayd al-Sā'idī that the Prophet (PBUH) employed a man called Ibn al-Lutbiyyah from the tribe of Al-Asad for zakāh collection and when he came back he told the Prophet (PBUH): “This is yours while this (another one) was given to me as a gift.” In a swift disapproval of this (by claiming it was given to him as a gift) the Prophet (PBUH) gave a sermon in which he censured the action of this man: “Why has he not stayed in his mother's house to see who will give him the gift?” Imam Bukhari entitled the Chapter under which he reported this hadith as Muḥasabah al-Musaddiqin (Accounting and Auditing of Zakah Collectors). Also, as part of the principles of corporate governance laid down by the Prophet (PBUH) is that he used to appoint some of his companions to guard the collected zakāh. On this, Abū Hurayrah reported that the Prophet (PBUH) assigned him to guard the zakāh of Ramadhan and someone came to steal from it and when he apprehended him and threatened to take him to the Prophet (PBUH), the latter inquired: “Do you know whom you have been talking to for the past three days O Abū Hurayrah? And he replied: “No.” He said “That was the Shaytan.” This hadith underscores another principle of corporate governance established by the Prophet (PBUH), which is protection of the interest of the zakāh recipients. The authority must protect the property of the beneficiaries of the zakāh. It worth noting an example against the standard set by the Prophet (PBUH) on the necessity to protect the zakāh beneficiaries' funds mentioned above (Ahmad et al, 2016).

Some Quranic principles and Prophetic sayings on corporate governance in Zakāh and Waqf institutions

The following provisions of the Glorious Qur'an and hadith of the Prophet (PBUH) should be the bedrock of any Islamic corporate bodies, including institutions of zakāh and waqf (Ahmad et al, 2016):

In Surah al-Mā'idah says, “O you who have believed! Fulfill all obligations”. By virtue of this verse the management of a zakāh and waqf corporation must fulfill all of its obligations towards its ultimate Employer, that is, Allah the Exalted through what is termed as murāqabah al-dhātīyyah (cautioning oneself of Allah's wrath); fulfills its duty towards the zakāh payers and the beneficiaries, through a just and fair distribution of zakāh and free access of the waqf beneficiaries to its management. This will create mutual confidence and trust.

In Surah al-Tawbah Allah says, “And say, ‘Do [as you will], for Allah will see your deeds, and [so, will] His Messenger and the believers. And you will be returned to the Knower of the unseen and the witnessed, and He will inform you of what you used to do.” According to commentaries on this verse, Allah informed His slaves that He will see their deeds and will expose what they conceal in their hearts, be it good or evil. And if it is good Allah will crown the doer with affection in the hearts of his fellow beings, and if it is a bad He will create disaffection for him in the hearts of his fellow beings. The Prophet (PBUH) said that even if a person carried

out an action secretly inside a rock that has no entry point or exit point his act shall still be revealed to the people no matter how hidden he feels it was. This makes the issues of corporate governance a serious matter in administering the affairs of others.

In Surah al-Hajj, Allah says, “[And they are] those who, if We give them authority in the land, establish prayer and give zakāh and enjoin what is right and forbid what is wrong. And to Allah belongs the outcome of [all] matters.” This verse emphasizes the need for an authority that will ensure the manifestation of justice and fairness. This applies to the governance of zakāh and waqf, where it is expected that the management would show a high level of integrity and accountability and would not undermine the confidence reposed in it

In Surah al-Nisā’ Allah says, “Indeed, Allah commands you to render trusts to whom they are due and when you judge between people, judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing...” The ‘ulama are unanimous that the verse was revealed in connection with the key to the Holy Ka’abah when Allah commanded the Prophet (PBUH) to return the key to a man called Uthman Ibn Talhah al-Hajabi who has been the trust keeper of the key to Ka’abah before the advent of Islam.³⁸ This individual episode, if applied generally, constitutes the principle of rendering trust to those whom it is due. Trust is important to all human dealings including good management and the disbursement of zakāh and waqf income among the beneficiaries. Breaches of trust were regarded by the Prophet (PBUH) as an indication of the approach of the day of Qiyāmah.

A hadith reported that the Prophet (PBUH) said that an intelligent person is one who holds himself accountable in this world before being held accountable in the hereafter. ‘Umar Ibn al-Khattab explains this by saying, “Exercise accountability on yourselves before you will be called upon to come and give account in the hereafter.” This hadith, and ‘Umar’s explanation, are indicative of the nature of Islamic corporate governance. Self-realization and correction are the best ways - far superior than state imposed rules which are sometimes circumvented by some people.

The hadith of Ibn al-Lutbiyyah is treated by Ibn Taymiyyah as the bedrock of what is termed as the al-Mustawfi al-Jami (accounting and auditing officer of zakāh) in the subject of zakāh and waqf (Ahmad et al, 2016).

The method is used in this paper is a qualitative research method, relying on content analyses of Annual Report of Rumah zakat in 2015, literature and online materials, including Islamic primary and secondary sources, articles, books, and Indonesian laws on zakāh.

Fund collecting

According annual report of Rumah Zakat in 2015, Rumah Zakat (RZ) is a non-governmental organization that focuses on the management of zakah, infaq, sadaqah and waqf professionally with emphasis on education, health, community development and economic empowerment programs as distribution of excellence program. By building the trust of the public, in 2015 RZ is mandated to manage ZISWAF fund as many as. 223.464.826.355 IDR. The collection of donations were higher when compared to 2014 which amounted to 198.331.737.316, IDR-or an increase of 13%. Following collection of donations in the last 5 years.

Fig.1: The collection of donations in the last 5 years

RZ received donations of zakah, infaq, Sadaqah and waqf. The types of donations received in 2015 that is zakah with a composition of 44% of the total raised funds and then followed by infaq/sadaqah receipt in the amount of 20% of total fund and operational funds which reached 1% of total receipt. Here is itemized composition of RZ donation receipt in 2015.

Distribution of donation

Donations received by RZ transmitted in four kinds of empowerment programs such as Senyum Juara, Senyum Mandiri, Senyum Sehat dan Senyum Lestari. Here is distribution of donations was channeled by Rumah Zakat during 2015.

Segment of donator

An increase in the number of donations collection is part of the trust of donators and the public. This is evident from the number of donators increase from year to year.

Fig.2: the number of donators increase from year to year.

Governance of institutions

Commitment to governance

As a national zakah institutions, RZ committed to improve management standard, especially related to transparency, accountability and responsibility. For that RZ committed to continue to improve the application of good governance institutions for the continuity of operations in the long term.

Implementation of the governance

RZ's board is a professional elected in Foundation Annual Meeting. The Board of Directors consisted of five members, one of them as chairman of the foundation, the board elected by Board of trustee, Chairman of the Foundation and members.

RZ Sharia Executive Board has function to monitor the policies made by the board of directors. In taking certain actions, directors need to obtain prior approval from the Sharia Executive Board. All decisions must be based on Islamic law which is the basis for the application of zakat institutions governance. During 2015, RZ Board of Directors had conducted a meeting with Sharia Executive Board.

RZ Directors held the weekly meeting to discuss operational performance, new policies, including changes to the applicable policies and other important issues in order to achieve the institution's goals. During 2015, it has been done 47 times meeting with an average attendance rate of directors at the meeting is 88% of the total implementation of the meeting. To improve the competence, the Board of Directors regularly attend seminars, conferences, workshops conducted by internal and external institutions.

Internal Audit

Internal Audit Department (IAD) is part of the SPI element (Internal Control System) in which is a third line of defense that responsible for the entire business process of internal examination of the institution through a systematic and orderly approach to evaluate and improve the effectiveness of internal control.

To maintain independence and objectivity so as to express the views and thoughts without distortion. The structure and position of IAD is under the board of directors and is directly responsible to the CEO. RZ has the Internal Audit SOP (standard operational procedure) which is the foundation and guide the work in conducting internal audit activities that includes the purpose, function, position, scope, authority and responsibility, codes of ethics and internal audit activities for realizing an effective internal control system.

In exercising its functions are supported by two people IAD personnel consisting of one auditor leader and one auditor. Auditor competence development will be carried out through international certification programs, training/internal and external training with the aim to improve the efficiency, effectiveness and quality of the audit results. The number of personnel who has participated international certification in 2015 is:

The development of IAD personnel committed in 2015, namely, risk management, anti-fraud seminar, MHMMD.

Table 1: Authorities of IAD

Implement re-examining of the internal control system in all activities or activities that exist within the institution.
Have an access to all documents, records, personal and physical as well as information on where objects examination conducted to obtain data and information related to the performance of its duties.
Determine the scope, method, manner, technique and frequency of audit.
Submit the report directly to the top management.

Table 2: Responsibility of IAD

Arranging Work program and annual budgets in internal audit field of the institution.
Identifying institution's problem to be able to set an audit object in all units.
Carrying out an audit of the objects that have been set.
Assessing to determine the root cause for the occurrence of digression.
Reviewing and assess the adequacy and effectiveness of internal control systems in all activities and provide information to management on the actual condition of the results of the audit activities and provide suggestions for improvements to the auditee.
Helping the management to identify risks in all activities and the problems encountered or may occur, as well as provide suggestions for improvements so that the risk can be minimized to a tolerable level.
Coordinating with external auditors in the audit activities to support the achievement of the objectives of the institution.
Developing work procedures or audit procedures.
Monitoring the corrective actions taken by the auditee is based on audit findings.
Incidentally make reports to the CEO and WMM on audit findings which could disturb the smooth operation of the institution.

In response to the strategies and expectations of management, IAD has set a priority risks that become the primary focus of the audit in 2015. This is in line with the risk based audit approach is applied, which is to ensure the effectiveness of controls, risk management, risk assessed in the high category.

Two main risks that are the focus of the audit in 2015, namely, fraud and reputation. Based on these risks and then prepared the audit plan 2015 to cover area exposed to such risks. In addition, IAD also conducts audits to monitor the potential operational risk compliance and the implementation of policies that have been set.

There are some risk indicators become main focus will be monitored through continuous auditing mechanism so that the detection of indication digression can be found early. The detection of such digression can be determined by using risk indicators that exceed specified tolerances. Results of continuous auditing will be submitted to the relevant unit for immediate correction, meanwhile if it requires further evaluation can be performed on site and surprised audit by internal audit.

In addition to the internal audit, in 2015 IAD is also carried out a coordination with the external auditors on audit activities performed by the external auditor as a form of business process monitoring of institution suitability.

Whistleblowing System

In line with the principle of transparency, in particular the value of integrity, related to offenses committed by Amil including RZ Management, so it is necessary to build a complaint system of alleged violations, which is usually called the Whistleblowing System (WBS) that allows for all parties, both internal and external to submit the report. WBS is a management tool used to assist enforcement of business ethics and work ethic in RZ. RZ has built Whistleblowing System (WBS) web based, allowing anyone to create and submit a report violation of fraud and other institutions form of ethical violations that occurred.

To encourage everyone willing and courageous to report a violation, RZ established a policy to keep secret the identity of the complainant and continue to receive and follow up on anonymous reports as well as policies to provide protection for whistleblowers from reprisal reported. Handling of complaint information will be followed up through the WBS 1x24hours by the Internal Audit team.

Code of Ethics in carrying out its profession, RZ applies the principles of professionalism. As stated in the work culture. Working professionals included:

- i. Maintain the good name of the institution (Reputation)
- ii. Carry out the duties as well as possible and with full awareness and responsibility

- iii. Working honestly, orderly, meticulous, disciplined, and eager for the benefit of the institution
- iv. Maintain physical and spiritual health
- v. e. Initiatives to improve the competence (quality of knowledge, ability, skill, and mastery of the task)
- vi. Promoting integrity and professionalism and do not bring personal issues into the work that can be detrimental to organizations and individuals

Employees are often faced with a situation that creates a conflict of interest. In that case, the code of ethics is needed as a guide for Amils to determine the most worth taking attitude. Amil's code of ethics are rules of institution for the regulation of attitudes or values related to good and correct behavior in practice and institution as a whole.

The successful implementation of the code of ethics do not only depend on the work unit charged with supervising the implementation of the code of conduct, but also determined by factors such as supervision and exemplary of superiors as well as the responsibility of all employees. Employees are expected to have the initiative to keep the code of ethics is adhered by reminding it to each other's, consult with superiors, or report violations of the code of ethics in the workplace. For the enforcement of the code of ethics, RZ formed a personnel committee.

Institution information access Until the end of 2015, RZ has had 51 representative network offices located in 39 major cities in Indonesia, RZ will provide service to people who want to directly communicate with the officer at the Branch office. Along with the development of information technology, RZ also establish a means of communication such as Facebook, twitter, email, sms, phone and live chat to facilitate service.

Disclosure of information that occurs in this era also be access for the institution as a means to inform the implementation of empowerment through social media (twitter, Facebook). Until the end of 2015 the number of RZ's twitter followers has reached 12137 followers, RZ Instagram followers has reached 17 373 followers and Facebook has reached 426 427 fans page like. In addition to marketing tools, social media is also used for two-way communication between the community and the institution.

In the framework of the transparency report, RZ update the information daily and periodic. For information on daily updates, stakeholders can see it in www.rumahzakat.org, twitter, Instagram and Facebook. As for the information that is updated regularly, RZ also publishes RZMagz, the monthly magazine published one month and given to donators who donate through branch offices (Annual Report of Rumah Zakat, 2015).

Practice of corporate governance, risk management and internal control

This research examined the practice of corporate governance, risk management and internal control Rumah Zakat in 2015. Corporate governance, risk management and internal control are key elements that are closely interrelated in the context of governance itself (Ishak & Mohamad Nor, 2017) in (Ishak et al, 2019). Governance covers all matters relating to administration, behaviour and risk management as well as internal controls. Good governance in an organization or company reflects that it has efficient business administration, good risk management, robust internal controls and commendable staff behavior (Ishak et al, 2019).

Risk management is a very important process within an organization. This process is ongoing and always takes into account any risk-related factors (ASX, 2010) in (Ishak et al, 2019). Risk management is very complex and requires strong collaboration from all parties within a company or organization (Subramniam & Carey, 2011; Tiwari, Shahbaz & Hye, 2013) in (Ishak et al, 2019). The risks involved are both internal and external and range from little risk to maximum risk. Each department and unit within a company or organization have their respective risk profiles which begin with the introduction of each risk, level of risk and actions to reduce each of these risks. It is impossible to completely eliminate the risk but actions can be taken to reduce it. For a company or organization, it is necessary to have a department or unit designated to coordinate risk management process by departments or other units (Ishak et al, 2019).

Internal control is a very important mechanism in risk management and governance of a company or organization. Internal controls determine the level of risk management whether and whether they are at an appropriate or otherwise level. If internal controls work well and are complied with by all employees, then the level of risk management is good and correspondingly, company or organization governance is good (Ishak et al, 2019).

Corporate governance, risk management and internal control

Governance is an important element in determining the direction of an organization. For a profit-driven organization, corporate governance serves to safeguard the interests of stakeholders in the company, especially shareholders. Corporate governance is based on the assumption that there is a separation between the owner and manager of the company (Jensen & Meckling, 1976) in (Ishak et al, 2019). Separation between owner and manager is difficult to identify if an organization is owned and managed by the same individual. To mitigate the problems caused by separation of ownership and management, effective governance should be practiced by the organization. Such mechanisms may consist of internal and external mechanisms of the organization (Ishak et al, 2019).

Among the internal mechanisms that can be created are the establishment of a board of directors comprising capable members. Since the role of the board is wide enough, a subcommittee comprising the board of directors can be formed. Compared with the board of

directors in charge of organizing policies and organizations, the role of this subcommittee would be to focus on specific matters relating to organizational travel. Among the committees to be established are committees for audit, rewards, tenders, risk management and nominations. In addition, other internal mechanisms that may be considered include the holding of a responsible internal audit to ensure that the organization has full internal control, compliance with relevant regulations and provide added value to the organization (DeZoort, Houston & Peters, 2001; Ahlawat & Lowe, 2004; Abbott, Parker & Peters, 2010) in (Ishak et al, 2019). In addition, to ensure the relationship between the parties and the external parties including other stakeholders, the close ties between these parties must be continued through meetings and periodic discussions. With that in mind, a two-way communication process will occur and will reduce the knowledge gap between the two sides (Ishak et al, 2019).

In terms of external mechanisms, the organization may appoint a qualified external auditor to monitor the financial position and performance of the company (Abbott, Parker, Peters & Raghunandan, 2003) in (Ishak et al, 2019). Risk management is a process of identifying, evaluating and controlling risks. This process involves the use of organizational resources in an integrated manner so that the effects of the events that will be confronted are low or the organization can take advantage of the event. There are various risk factors and generally these risks are related to organizational characteristics. Among the risk examples are financial, image and operational risks. In facing or managing risks, there are several strategies that can be practiced by the organization. These strategies are to avoid, reduce, transfer, and accept risks. The selection of this strategy, among others, depends on the goals and management styles and the organization's environment (Ishak et al, 2019).

Given that the risk management process is complex, the involvement and commitment of various parties is highly demanded. Apart from the board (Ishak & Mohamad Nor, 2017) in (Ishak et al, 2019), the parties directly responsible for managing risk are the risk management committees, chief risk officers, and department managers or units. The involvement of the various parties will enable the awareness of risks to be appreciated and understood by all employees. This understanding helps those involved with risk management to plan and devise a more effective risk strategy. Risk management is closely related to the internal control of an organization or company. Effective internal controls can reduce the risk level faced by the organization or company. However, if internal control is loose and ineffective, the opposite will occur in terms of risk level (Ishak et al, 2019).

General concept of corporate governance and applying the concept of corporate governance to zakāh administration in Indonesia

Rumah Zakat through annual report in 2015 show that have been implementing general concept of corporate governance which is suitable for the Islamic law and positive law. Rumah Zakat in 2015 have been applying the concept of corporate governance to zakāh administration in Indonesia which reflect the mechanism of government and the principle of government. Rumah Zakat in 2015 apply mechanism and principle of government. Mechanism of government is reflected by the The Board of Directors and Sharia Executive Board. Principle of governance was implemented by applying transparency and accountability in example by regular meeting. RZ's board is a professional elected in Foundation Annual Meeting. The Board of Directors consisted of five members, one of them as chairman of the foundation the board elected by Board of trustee, Chairman of the Foundation and members.

RZ Sharia Executive Board has function to monitor the policies made by the board of directors. In taking certain actions, directors need to obtain prior approval from the Sharia Executive Board. All decisions must be based on Islamic law which is the basis for the application of zakat institutions governance. During 2015, RZ Board of Directors had conducted a meeting with Sharia Executive Board. RZ Directors held the weekly meeting to discuss operational performance, new policies, including changes to the applicable policies and other important issues in order to achieve the institution's goals. During 2015, it has been done 47 times meeting with an average attendance rate of directors at the meeting is 88% of the total implementation of the meeting. To improve the competence, the Board of Directors regularly attend seminars, conferences, workshops conducted by internal and external institutions.

Rumah Zakat also apply the internal control in 2015 as a part of risk management. Risk management can be reduced by implementing good corporate governance.

Internal Audit

Internal Audit Department (IAD) is part of the SPI element (Internal Control System) in which is a third line of defense that responsible for the entire business process of internal examination of the institution.

In line with the principle of transparency, in particular the value of integrity, related to offenses committed by Amil including RZ Management, so it is necessary to build a complaint system of alleged violations, which is usually called the Whistleblowing System (WBS) that allows for all parties, both internal and external to submit the report.

Conclusion

Rumah Zakat through annual report in 2015 show that have been implementing general concept of corporate governance which is suitable for the Islamic law and positive law. Rumah Zakat in 2015 have been applying the concept of corporate governance to zakāh administration in Indonesia which reflect the mechanism of government and the principle of government. Mechanism of government is reflected by the The Board of Directors and Sharia Executive Board. Principle of governance was implemented by applying

transparency and accountability in example by regular meeting. RZ's board is a professional elected in Foundation Annual Meeting. The Board of Directors consisted of five members, one of them as chairman of the foundation the board elected by Board of trustee, Chairman of the Foundation and members. Rumah Zakat also conduct Internal Audit Department (IAD) is part of the SPI element (Internal Control System) in which is a third line of defense that responsible for the entire business process of internal examination of the institution.

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