

INTEGRATED ISLAMIC FINANCIAL ACCOUNTABILITY MODEL FOR ISLAMIC SOCIAL ENTERPRISE (ISE)

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ABSTRACT

This study aims to present an integrated Islamic financial accountability model, which is different from previous accountability models and frameworks. In this case, all three accountability aspects which are: (i) accountability to whom (accountability groups); (ii) accountability for what (accountability dimensions); and (iii) accountability on how (accountability tools and processes) were integrated into a single model. By using these three accountability aspects, this model is specifically focused on financial accountability area with additional Islamic elements that suits Islamic Social Enterprise (ISE). In order to develop this model, this study applies the comparison method on previous accountability and Islamic accountability models with additional literature inputs from financial accountability aspects and Islamic accountability perspectives. Based on the findings, this study introduces an integrated Islamic financial accountability model specifically for ISE, one of the emerging institution types under the non-profit sector. It is hoped that the integrated Islamic financial accountability model developed in this study will be implemented by the management of ISE in order to discharge their accountability especially to donors, beneficiaries and other stakeholders.

Keywords: Financial accountability, Islamic accountability, Islamic social enterprise (ISE), Financial management, Islamic social accounting

INTRODUCTION

Accountability is one of the crucial elements for non-profit organisations. This is because accountability is closely related to responsibilities of non-profit organisations including Islamic social enterprise (ISE) to their stakeholders such as donors, beneficiaries and public. In other word, accountability is a cycle of relationship between ISE stakeholders (principal) and ISE board of directors (BOD) and management (agent). In this case, ISE stakeholders are continuously demanding the information from and supplying the resources needed by ISE BOD and management. While, ISE BOD and management are continuously demanding the resources and supplying the information needed by ISE stakeholders.

Several theories are developed from this cycle of relationship including agency theory, stewardship theory and resource dependency theory. These theories agreed that both parties play important roles in order to ensure that ISE can achieve its objectives and goals. The survivability of ISE highly depends on the financial supports from ISE stakeholders, and these supports rely on the level of accountability practices (Abraham, 2003; Sloan, 2009).

For instance, Alterman et al. (2005) estimated the Muslims' contribution in terms of Islamic charity funds are between \$250 billion to \$1 trillion annually. In line with this statement is Obaidullah and Shirazi (2015), where they find that there is an excess of \$600 billion of *zakat* funds from the Organisation of Islamic Cooperation (OIC) member state countries, with high potentials to be distributed for charitable purposes. If these funds are channelled through non-profit organisations including ISE, it is definite for ISE to have good financial accountability practices. This to ensure that these funds are rightly distributed based on the objectives set by ISE with the consent of ISE stakeholders. Therefore, there is a need to develop such a comprehensive and reliable integrated Islamic financial accountability model in order to ensure ISE BOD and management is accountable for these funds from ISE stakeholders.

Therefore, this study aims to develop a new accountability model that specifies on financial aspect and also integrates Islamic accountability perspectives. It starts with a discussion on accountability including financial accountability, accountability in non-profit sector and Islamic accountability. Then, it continues with explanations of ISE and its financial aspects. Next, financial management mechanisms are discussed and several financial components such as financial disclosure, internal control, financial planning and budgeting, financial performance management and financial governance are covered. Next, a number of previous accountability and Islamic accountability models are discussed accordingly. Finally, a new integrated Islamic financial accountability model for ISE is developed.

ISLAMIC SOCIAL ENTERPRISE (ISE)

Currently, there is no specific definition on ISE due to its limited discussion, as compared to Social Enterprise (SE), where the SE definitions have been intensively discussed. The most accepted SE definition is when SE is seen as primarily driven by social objectives and its surplus are principally reinvested for that purpose in the business or in the community, rather than being driven for maximising shareholders' wealth as in private sector (DTI, 2002; Cabinet Office, 2006; Kerlin, 2006; Spear et al., 2009).

It can be said that Muliyaningsih (2013) started the discussion related to ISE when she discussed the role of social entrepreneur in Islamic welfare system. In her study, she emphasized how an individual could act as an intermediary for *zakat* institutions. Al-alak et al. (2010) proposed salient traits of Islamic entrepreneur, which among others are fear of Allah and *halal* earnings. Therefore, a broader definition of ISE can be concluded that it is quite similar to SE with an addition of Islamic elements and principles in its management and practices. The Islamic elements in ISE can be either owned or managed by Muslims, has objectives towards Islamic religion, operated and managed according to Shariah (Islamic law) principles.

Next, Hati & Aida (2014) started to identify ISE concept by defining it is as non-profit organisations that collect Islamic charity funds such as *zakah*, *waqf* and *sadaqah* to fulfil SE criteria including adopting entrepreneurial approaches, taking direct action to earn income, achieving its social mission, and creating a larger multiplier effect, but with limited profit distribution. Further, there is a study on ISE sustainability explored by Abdul Kadir & Mhd Sarif (2015) on nine private Islamic schools in Malaysia are selected as sample. This study concluded that sustainability can be achieved financially if ISE is both receiving Islamic charity funds and generating income at the same time.

Later, there is a study on ISE governance (Muhamed et al., 2016) and financial management practices (Ramli et al., 2016). In the ISE governance study, several governance practices for ISE from Islamic perspective are discussed including relationship between governance and Islamic accountability in ISE, *syura* (mutual consultation) practices by ISE's boards of directors and also several governance challenges for ISE. Meanwhile, in the ISE financial management study, several

financial management practices for ISE from Islamic perspective are discussed and proposed including internal control, financial planning and budgeting, financial disclosure and financial performance measurement.

Finally, a study conducted by Muhamed et al. (2018) successfully defined ISE as an Islamic-based entity that gained funding (in the forms of monetary and non-monetary assets) from Islamic charitable sources (through *waqf*, *sadaqah*, *bibah*, and *qard hasan*) and channeled them into businesses activities (goods and services) for the purpose to contribute to the needy and at the same time sustain the contribution in a long term. This study also highlights several possible characteristics for ISE which are: (i) is based on Islamic objectives (*maqasid shariah*); (ii) operates *shariah*-compliance economic activities; (iii) is supported by Islamic charity funds; (iv) is run mostly by Muslims; and (v) generates income from social business.

Besides, as part of SE, ISE also has similar definition with SE and can be distinguished with additional Islamic practices embedded within ISE as compared to SE. For Islamic organisations like ISE, some Islamic values such as worship or obedience to Allah and operating based on Islamic teachings or known as *shariah* principles as stated by Ahmad (1991) such as *'adala* (social justice), *ihsan* (benevolence), *amanah* (trusteeship), *ikhlas* (sincerity) and *rahmah* (compassion) are highly believed to be embedded within ISE (Kamaruddin & Auzair, 2018).

Based on these arguments on ISE, it can be concluded that ISE can be differentiated from SE based on its Islamic objectives (*maqasid shariah*). On top of that, ISE is also believed to be embedded with Islamic practices in their daily operations and activities. In other words, ISE is an entity which is driven by both social and business objectives according to Islamic principles and values.

ACCOUNTABILITY

Overview of Accountability

There is no specific definition and concept that can best suit accountability as its interpretations are vary according to different people who are used to and working with it. For example, Bakker (2002) stated that accountability is assumed and used in circumstances that are related to transparency, responsiveness, ethic, legitimacy and regulation, whether in relation to public, private, non-profit and even other types of organisations. Meanwhile, Ebrahim & Weisband (2007) elaborate accountability concept into four core components which are: (i) transparency - collecting information and making it available for public; (ii) answerability of justification - providing clear reasoning for all actions and decisions; (iii) compliance - monitoring and evaluation of procedures and outcomes; and (iv) enforcement or sanctions - action taken to overcome any lack in these three previous core components in accountability.

In general, accountability is about a relationship between two parties where one party is giving responsibilities and another party is receiving those responsibilities. It is an action done by individuals or organisations to report to recognised (authority) and be responsible on their actions (Edwards & Hulme, 1996). This relationship between these two parties covers two main major aspects which are: (i) accountable to answer all actions made; and (ii) obligated to ensure all activities and operations are conducted as required (Shafritz, 1992). These responsibilities further interpreted by Osman (2012) into two sets of responsibilities which are: (i) responsibility to make actions; and (ii) responsibility to be accountable for those actions made.

Basically, accountability relationship is based on willingness and obligation phrases. Willingness refers to an action of one party who gives such responsibilities to another party. While, an obligation refers to an action of one party to hold such responsibilities from another party. In a simple word, accountability is defined as a willingness action in giving by one party and an action of another party to receive as an obligation (Goetz, 2002). These two actions become a basis in

developing accountability framework and models that are being used widely in various organisations including ISE.

However, accountability should not be looking at only one's responsibility to others. There are also some arguments that stated accountability also refers to taking responsibility for oneself (Cornwall et al., 2000). In this case, responsibility to meet other expectations is recognised as external accountability dimension; while, self-responsibility that proves into actions and decisions is recognised as internal accountability dimension (Ebrahim, 2010; Kaldor, 2003).

Apart from responsibility, accountability can be seen as a process which individuals or organisations make a commitment to respond and balance the needs of stakeholders in its decision-making process and activities (Lloyd et al., 2007). From a governance perspective, accountability is about answerability, blameworthiness, liability and the expectation of account-giving. Accountability has expanded beyond the basic definition of being called to account for one's actions, where it is frequently described as an account-giving relationship between individuals (Dykstra, 1939). Meanwhile, from an accounting perspective, accountability is becoming the important elements where the primary objective of an accounting is to aid accountability (Lewis, 2001). Last but not least, accountability is also highly believed to convey an image of trustworthiness for leadership (Abbasi et al., 2010). By acts as both instrument and goal, accountability started as an instrument to enhance effectiveness and efficiency of an organisation and has gradually become a goal in itself. The relationship between an instrument and a goal drives a Muslim closer to 'responsiveness', 'a sense of responsibility' and a willingness to act in righteous and trustworthy manner (Bovens, 2005).

Financial Accountability

Financial accountability is related to the implementation of appropriate financial management mechanisms in order to ensure the proper use of financial resources by an organisation (Siraj & Karbhari, 2014). Under financial accountability, several crucial important aspects need to be focused on including the supply-demand relationship, the internal accounting system, financial disclosure requirements and oversight and monitoring mechanisms (Keating & Frumkin, 2003).

In general, financial accountability can be divided into two categories which are: (i) external financial accountability; and (ii) internal financial accountability (Raffer, 2004). External financial accountability refers to an obligation between individuals or organisations to outside stakeholders. Meanwhile, internal financial accountability refers to an obligation between individuals or organisations to internal stakeholders. These two financial accountability categories need to be emphasised equally as both are important to ensure individuals or organisations are discharging its financial accountability.

Besides, financial accountability is important as it is strongly related to the financial sustainability. This is because as part of non-profit organisations, ISE also heavily depends on public donations. Previous studies confirmed that the public donation collected by non-profit organisations are crucial for the non-profit organisations' sustainability and the public donation is highly impacted by the level of financial accountability practices (Abraham, 2003; Sloan, 2009). This is because sustainability is obtained through the positive relationship between financial accountability and public trust (Kamaruddin & Ramli, 2015). In this case, public trust is not only measured from an increase in public donations collected in general, but more specifically on the regular donors' contributions towards ISE itself.

Accountability in Non-Profit Sector

Normally, accountability in non-profit sector including for ISE can be divided into three aspects, which are: (i) accountability to whom; (ii) accountability for what; and (iii) accountability on how (Candler & Dumont, 2010; Ebrahim, 2010; Najam, 1996). Under accountability to whom, ISE

stakeholders consist of all parties who are related to ISE either directly or indirectly such as the government, donors, beneficiaries/clients, partners/allies, members, volunteers, staffs, media, constituents and general public, as their involvement are important for ISE's existence and sustainability (Bovens, 2007; Brown et al., 2001; Candler & Dumont, 2010; Gagne, 1996; Kearns, 1994; Chene, 2013). These ISE stakeholders can be classified into four accountability groups which are summarised in the following **Table 1**:

Table 1: ISE stakeholders based on accountability groups

Accountability Group	Details
Upward Accountability	Relationship between ISE with the parties who will shape ISE's environment <ul style="list-style-type: none"> ▪ Government: ISE is accountable to follow the laws and guidelines set by the government as they are the regulator ▪ Donors: ISE has high accountability for donors in ensuring the resources that they have contributed are used wisely according to their purposes of giving
Downward Accountability	Relationship between ISE with the parties who ISE tries to affect <ul style="list-style-type: none"> ▪ Beneficiaries/Clients: ISE needs to serve them as it was their main focus based on their objectives and goals ▪ Partner/Alliance: they are in the same field with ISE with similar objectives to serve the public
Inwardly Accountability	Relationship between ISE with the parties who are internally with ISE <ul style="list-style-type: none"> ▪ Members: playing the important roles especially when they are provided the resources needed for the existence of ISE ▪ Volunteers/Staffs: they are the one who are carrying ISE's action and missions in the field work
Horizontal Accountability	Relationship between ISE with the parties who ISE wants to share its responsibilities <ul style="list-style-type: none"> ▪ Media: it is a communicative tool for ISE that plays an important role to ensure that ISE's activities, decisions are communicated to the public ▪ Constituents: its roles as a special interest group for ISE such as watchdog groups that play as external accountability for ISE to serve ▪ Public: ISE is needed to be accountable from the 'public trust' given by the general public for the survival of ISE

Source: Agyemang et al. (2009); Ebrahim (2010); Jacobs & Wilford (2007); Lee (2004); Leen (2006); Najam (1996); O'Dwyer & Unerman (2007)

Meanwhile, accountability for what refers to types or dimensions of accountability that an organisation is accountable for. Previous studies classified several accountability dimensions for non-profit organisation in order to answer such accountability for what aspect. This includes accountability to internal and external stakeholders (Kovach et al., 2003; Kamaruddin & Ramli, 2015; Raffer, 2004), accountability for input, output and procedural (Brown et al., 2001; Candler & Dumont, 2010; Gagne, 1996), financial, fairness and performance accountability (Brinkerhoff, 2004; Jordan & Van Tuijl, 2006), finance, governance, performance and mission accountability (Behn, 2001; Ebrahim 2010), negotiated, compliance, professional and anticipatory accountability (Romzek & Dubnick, 1987; Kerns, 1994) and substantive, symbolic, formal, descriptive and participatory accountability (Guo & Musso, 2007). These accountability dimensions are summarised in the following **Table 2:**

Table 2: Accountability dimensions for Non-Profit Organisations

Authors	Accountability Dimensions
Kovach et al. (2003); Kamaruddin & Ramli (2015); Raffer 2004)	Two accountability dimensions: <ul style="list-style-type: none"> ▪ Accountability for internal stakeholders – all responsibilities borne by the non-profit organisation towards internal stakeholders such as members, partner/alliance and staffs. ▪ Accountability for external stakeholders – all responsibilities borne by the non-profit organisation towards external stakeholders such as donors, beneficiaries, government, media, constituents and public.
Brown et al. (2001); Candler & Dumont (2010); Gagne (1996)	Three accountability dimensions: <ul style="list-style-type: none"> ▪ Accountability for input – any value adopted by non-profit organisations to fulfil its responsibilities including financial resource, volunteer resource and reputational capital. ▪ Accountability for output – any consequences or results created from all actions and decisions made by non-profit organisation to fulfil its responsibilities including goods and services, social capital and policy impact. ▪ Accountability for procedural – any legal, formal mission, ethics and legitimacy requirements that need to be borne by non-profit organisation in delivering their responsibilities.
Brinkerhoff (2001); Brinkerhoff (2004); Jordan & Van Tuijl (2006)	Three accountability dimensions: <ul style="list-style-type: none"> ▪ Financial accountability – focusing on recordkeeping and usage of finance. ▪ Fairness accountability – focusing on legal and bureaucratic mechanisms. ▪ Performance accountability – focusing on consequences or results.
Behn (2001); Ebrahim (2009); Ebrahim (2010)	Four accountability dimensions: <ul style="list-style-type: none"> ▪ Finance accountability – responsibilities by non-profit organisation on financial affairs such as recordkeeping and the usage of finance. ▪ Governance accountability – responsibilities by non-profit organisation on roles, functions, legal and ethics requirements such as board’s decision making and non-profit organisation’s standard and guidelines. ▪ Performance accountability – responsibilities by non-profit organisation to ensure consequences and results are according to their objectives and goals ▪ Mission accountability – responsibilities by non-profit organisation on their processes and procedures in delivering organisation’s objectives and goals.
Romzek & Dubnick (1987); Kerns (1994)	Four accountability dimensions: <ul style="list-style-type: none"> ▪ Negotiated accountability – how non-profit organisation deals and be responsible for achieving its objectives. ▪ Compliance accountability – how non-profit organisation deals

Guo & Musso (2007)	<p>and respond to the law, policies and regulations.</p> <ul style="list-style-type: none"> ▪ Professional accountability – how non-profit organisation deals and respond to the issues and problems by using and depending on staff skills and expertise. ▪ Anticipatory accountability – how non-profit organisation deals and be responsible with responsiveness to interested parties such as clients, donors, government, community and others who had interest with the organisations. <p>Five accountability dimensions:</p> <ul style="list-style-type: none"> ▪ Substantive accountability – occurs when an organisation acts in the interest of its constituents, in a manner responsive to them. ▪ Symbolic accountability – occurs when an organisation is trusted by its constituents as their legitimate representative. ▪ Formal Accountability – occurs when formal organisational arrangements establish the ways in which its leaders are selected by its constituents. ▪ Descriptive accountability – occurs when leaders of an organisation mirror the (politically relevant) characteristics of its constituents. ▪ Participatory accountability – occurs when there is a direct, unmediated, and participatory relationship between an organisation and its constituents.
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Based on **Table 2**, it is identified that various accountability dimension’s classification in non-profit organisation including ISE, highlights a wide range of different accountability dimension aspects. Interestingly, most of these classifications recognised financial aspect as part of the accountability dimension in general. Therefore, these financial accountability dimensions are taken into account in our effort in developing an integrated Islamic financial accountability model specifically for ISE.

Last but not least, accountability on how refers to a mechanism used in order to deliver accountability itself. Based on the previous studies, there are several accountability mechanisms that have been used in non-profit organisations that also potentially to be used in the context of ISE. These accountability dimensions are summarised in **Table 3**.

Table 3: Accountability mechanisms for Non-Profit Organisations

Accountability Mechanisms	Explanations
Disclosure statements and reports	<p>Accountability tools used:</p> <ul style="list-style-type: none"> ▪ Disclosure of financial information under financial statements and operational data under annual reports. ▪ Usually to respond on legal requirement, tax status and also funding requirement. ▪ Demanded by upward accountability group which are donors and government and several other stakeholders such as constituents, clients, media and general public as well.
Performance assessment and	<p>Accountability tools used:</p> <ul style="list-style-type: none"> ▪ Performance assessment is conducted at the end of the non-profit

evaluation	organisation's activities, programs and projects while evaluation is conducted mid-way through it. <ul style="list-style-type: none">▪ As a measurement as to whether non-profit organisation's objectives and goals are achieved or not.▪ Usually to respond on funding requirement and also potentially become a learning tool for internal use.▪ Demanded by donors, clients, government, constituents and even internal parties such as board and staffs.
Participant	Accountability processes used: <ul style="list-style-type: none">▪ Involve on-going routines in non-profit organisation operations.▪ Reflect the process of involving beneficiaries and clients in decisions about its activities, programs and projects.▪ Usually to respond on funding requirement and also become organisational value for non-profit organisation itself.▪ Demanded by downward accountability group which are beneficiaries, clients and partners and other stakeholders such as donors as well.
Self-regulation	Accountability processes used: <ul style="list-style-type: none">▪ Include self-developed standards, codes of conducts as well as implementation of certification systems and rating systems.▪ Will increase stakeholders' confidence on their operations and management and it is also related to organisation's reputation as well.▪ Had been used for internal purposes but several other stakeholders such as donors, clients and general public also demanded as well.
Social auditing	Accountability tools and processes used: <ul style="list-style-type: none">▪ A process when non-profit organisation accesses and reports on its social performance and ethical behaviour.▪ Integrate all previous four mechanisms and involve almost all non-profit organisation's stakeholders to influence organisational values and goals.▪ Will increase stakeholders' confidence on their operations, organisational values, ethical performance and economic performance as well.

Source: Adopted from Agyemang et al. (2009), Ebrahim (2003a), Ebrahim (2010), Lee (2004), Jordan (2005) and Leen (2006)

Based on **Table 3**, it can be summarised that accountability mechanisms can be divided into two major groups which are accountability tools and accountability processes (Ebrahim 2003a). Each accountability mechanism has its own impact to achieve good accountability practices. Moreover, Kovach et al. (2003) and Lee (2004) also added that non-profit organisation's accountability mechanisms are actually measuring non-profit organisation's actions, results and intentions. Action and result accountabilities are usually tied to the organisational activities delivered and its implications toward organisation's objectives and goals. Meanwhile, intention accountability refers to non-profit organisation's missions, objectives and goals and measuring these missions, objectives and goals with their input and output accountability tools.

Further, there are five main financial management components that act as accountability mechanisms, which consist of: (i) financial disclosure; (ii) internal control; (iii) financial planning and budgeting; (iv) financial performance management; and (v) Islamic work ethics. These five financial management components are believed to be able to discharge financial accountability through an integrated Islamic financial accountability model developed from this study. Besides, previous study by Masruki et al. (2018) also shows that financial management are significant in discharging accountability in Islamic non-profit organizations.

Islamic Accountability

In general, accountability for whom aspect focuses on responsibilities between people, organisations and its stakeholders (Ibrahim & Yaya, 2005). However, under the Islamic accountability for whom aspect, it is viewed in a broader scope where there is an existence of accountability to Allah (*hablum minallah*) besides accountability among people (*hablum minannas*) (Ibrahim, 2000; Ibrahim & Yaya, 2005; Lewis, 2006).

In the context of *hablum minallah*, accountability is closely related to the concept of *amanah* (trusteeship). *Amanah* is a form of trust given by Allah to every human and human need to be responsible with it. In addition, *amanah* concept also indicates that all resources in this world belongs to Allah (ownership) and people only acts as manager to manage those resources (Al-Quran 42:38). On the other hand, under *hablum minannas*, accountability is closely related with the concept of *khilafah* (vicegerency). *Khilafah* is a form of power given to human and human need to take responsible for it. Besides fulfilling the responsibilities towards Allah, *khilafah* concept also entitled those individuals or organisations a responsibility to be accountable to other people.

In this case, both *amanah* and *khilafah* concepts are closely related. *Khilafah* concept indicates some power given together with resources that are made available in a form of *amanah* for individuals or organisations to conduct activities and make decisions in order to achieve objectives that has been established earlier. More importantly, one’s relationship with other individuals mirrors one’s relationship with Allah (Nahar & Yaacob, 2011). This is because the success of individuals in the life hereafter depends upon their performance in this world (Baydoun & Willet, 1997).

In addition, some Islamic principles and values such as worship or obedience to Allah and operates based on Islamic teachings or known as *shariah* principles as stated by Ahmad (1988) is highly believed to be embedded in ISE. This includes *adala* (social justice), *ihsan* (benevolence), *amanah* (trusteeship), *ikhlas* (sincerity) and *rahmah* (compassion) (Ali, 2010; Kamaruddin & Auzair, 2018). The details of these Islamic principles and values are summarised in the following **Table 4**.

Table 4: Islamic principles and values in ISE

Islamic Principles	Definition	Quranic Verse
<i>Adala</i> (Social justice)	A principle of cooperation for each other with justice, righteousness and also not to exploit others and being exploited by them.	Surah An-Nahl verse 90
<i>Ihsan</i> (Benevolence)	A principle of a good behaviour or acts to the benefits of others although without any obligation at that time.	Surah Al-Baqarah verse 195
<i>Amanah</i> (Trusteeship)	A form of trust given by Allah to every human and human need to be responsible for it.	Surah An-Nisa’ verse 58
<i>Ikhlas</i> (Sincerity)	A principle where every act is done ultimately just for Allah without expecting any compensations or rewards.	Surah Al-Bayyinah verse 5

Rahmah A principle that reflects humanity values and concerns Surah Al-Anbiya
(Compassion) to others. verse 107

Source: Kamaruddin & Auzair (2018) and Ali (2010)

Besides these Islamic principles and values, there are also several other specific Islamic principles especially for social activities that are highly believed to suit the ISE. This includes *ta'awanu ala birri wattaqwa* (Islamic cooperation) – Surah Al-Ma'idah verse 2, *amar ma'ruf nabi munkar* (promote goodness and eradicate evil or known as jihad) – Surah Ali Imran verse 110, *fastabiqul khairat* (racing to do good things) – Surah Al-Baqarah verse 148 and *maslahah ummah* (public interest).

Furthermore, ISE is also believed to be involved with Islamic charity funds for social activities and Islamic finance for economic activities. There are several types of Islamic charity funds such as *zakat*, *waqf* and *sadaqah*, *hibah* and *qard hasan*. Meanwhile, Islamic finance that are normally used in economic activities are *wadi'ah*, *wakalah*, *mudharabah*, *murabahah*, *musyarakah*, *bai' bithaman ajil* and *ijarah* (ISRA, 2012; Htay et al., 2014). Besides, ISE is also believed to accord with *shariah*-compliant businesses in adherence to *shariah* law. Moreover, ISE also must ensure that its economic activities are not involved with prohibited activities such as *riba'* (interest), *gharar* (uncertainty), *maysir* (gambling) and other prohibited goods such as liquor and pork.

ACCOUNTABILITY AND ISLAMIC ACCOUNTABILITY MODELS

In order to have better understanding on accountability in non-profit organisation including ISE, several previous accountability models have been analysed. This includes accountability framework for religious non-profit organisation (Laughlin, 1990), generalized accountability model (Gray et al., 1996), principal-agent relations of accountability framework in non-profit organisation (Ebrahim 2003b), grounded theory on accountability perceptions (Goddard, 2004), Global Accountability Projects (GAP) framework for non-profit organisations (Blagescu et al., 2005), creating accountability – understanding actual board behaviour framework (Huse, 2005), and holistic accountability for non-profit organisation (Osman, 2012; O'Dwyer & Unerman, 2008).

Meanwhile, there are also several previous Islamic accountability models for Islamic non-profit organisations that have been analysed. This includes accountability framework for *waqf* management (Ihsan, 2007), *waqf* accountability model in Malaysia (Osman, 2010), accountability framework for *waqf* management (Siraj, 2012), Islamic accountability framework for *zakat* fund management (Saad et al., 2014) and internal control practices based on financial accountability in Islamic philanthropic institutions in Malaysia (Kamaruddin & Ramli, 2018).

Based on previous studies on accountability and Islamic accountability models in non-profit organisation, there are several important outputs that can be summarised. First, all these previous accountability models agreed that the party who is responsible for non-profit organisation actions are given authorisation to manage current operation of the non-profit organisation. This includes board, managements and employees of non-profit organisation. Second, it is also believed that external parties such as stakeholders, environment, social and ideology are directly and indirectly affecting accountability level for non-profit organisation. For instance, in order to have resilient sustainability, a non-profit organisation cannot solely depend on their activities and programs alone but also need to be supported by other related parties especially donors and the public members. Therefore, besides beneficiaries as the main focus, non-profit organisation also needs to be accountable to these external parties as well. Third, non-profit organisation needs to respond toward its stakeholders for all actions and decisions made. Further, accountability can be discharged by supplying information needed to the stakeholders. Last but not least, from the Islamic perspective, both *hablum minallah* (accountability to Allah) and *hablum minannas* (accountability among people) are

included to achieve full Islamic accountability. These accountability and Islamic accountability models and frameworks are summarised in the following **Table 5**:

Table 5: Summary of accountability and Islamic accountability models in Non-Profit Organisation

Accountability/ Islamic Accountability Models	Descriptions
Accountability Framework for Religious Non-Profit Organization (Laughlin, 1990)	<ul style="list-style-type: none"> ▪ Principal transfer resources and responsibilities. ▪ Principal demand information. ▪ Agent receives resources and responsibilities. ▪ Agent supplies information.
Generalized Accountability Model (Gray et al., 1996)	<ul style="list-style-type: none"> ▪ Accountor gives instruction, reward and power over resources. ▪ Accountee discharge accountability through information of actions. ▪ A contract to bind the accountee (accountable)
Accountability on Principal-Agent Relations of Accountability Framework in Non-Profit Organisation (Ebrahim, 2003b)	<ul style="list-style-type: none"> ▪ Non-profit organisation can be both a principal and an agent. ▪ Three primary groups which are funders, sector regulators and clients and communities. ▪ Strong relationship as an agent toward funders and a principal towards sector regulators, clients and communities
Grounded Theory on Accountability Perceptions (Goddard, 2004)	<ul style="list-style-type: none"> ▪ Causal conditions (external factors) and interaction (internal factors) give consequences on the accountability perceptions. ▪ Accountability perceptions on power and trust elements.
Global Accountability Projects (GAP) Framework for Non-Profit Organisations (Blagescu et al., 2005)	<ul style="list-style-type: none"> ▪ Four dimensions which are transparency, participation, evaluation and complaint and response mechanism. ▪ These dimensions focus on relationship between non-profit organisations with the stakeholders.
Creating Accountability – Understanding Actual Board Behaviour Framework (Huse, 2005)	<ul style="list-style-type: none"> ▪ Board behaviour affecting accountability level. ▪ Internal and external factors.
Holistic Accountability for Non-Profit Organisation (O'Dwyer & Unerman, 2008; Osman, 2010)	<ul style="list-style-type: none"> ▪ Upward (bureaucratic, legal and economics) and downward (needs) accountability. ▪ Upward (the one who give responsibilities) and downward (the one who affected on organisation's actions) accountability.
Accountability Framework for <i>Waqf</i> Management (Ihsan, 2007)	<ul style="list-style-type: none"> ▪ All parties related with <i>waqf</i> management are accountable to Allah (<i>hablum minallah</i>). ▪ <i>Mutavalli</i> (<i>waqf</i> manager) discharges accountability (<i>hablum minannas</i>) by using Islamic accounting system.
<i>Waqf</i> Accountability Model in Malaysia (Osman, 2010)	<ul style="list-style-type: none"> ▪ Focus on reporting line (accountable and responsible) to upward accountability in Malaysia context. ▪ <i>Waqf</i> management is under government body and all parties

Accountability Framework for <i>Waqf</i> Management (Siraj, 2012)	<ul style="list-style-type: none">related are accountable to Allah (<i>hablum minallah</i>).▪ People are accountable to Allah (<i>hablum minallah</i>) according to Quranic revelations and all actions are presented as angelic records.▪ Accountability among people (<i>hablum minannas</i>) is presented by using financial statements, performance reporting, strategic planning and annual budgeting.
Islamic Accountability Framework on <i>Zakat</i> Fund Management (Saad et al., 2014)	<ul style="list-style-type: none">▪ Accountability to Allah (<i>hablum minallah</i>) is intangible and accounted through the level of faith (<i>iman</i>) and Islamic beliefs.
Internal Control Practices Based on Financial Accountability in Islamic Philanthropic Institutions in Malaysia (Kamaruddin & Ramli, 2018)	<ul style="list-style-type: none">▪ Internal control practices reflect financial accountability for what – internal control as part of process.▪ Internal control practices reflect financial accountability on how – financial disclosure supported by internal control as a tool to discharge financial accountability.▪ Internal control practices reflect financial accountability to whom – internal control indirectly gives power (<i>kebilafah</i>) and trust (<i>amanah</i>) to organization from stakeholders.

INTEGRATED ISLAMIC FINANCIAL ACCOUNTABILITY MODEL

Based on previous discussions, the integrated Islamic financial accountability model for ISE was developed. The model consists of three accountability aspects (to whom, for what and on how), which each of it specifically focused on financial matters. Besides, the model also has Islamic accountability inputs including ISE's special elements on financial aspects (Islamic principles and values, Islamic social objectives and Islamic economic objectives). The model is also developed after the analysis of previous accountability and Islamic accountability models. Thus, the integrated Islamic financial accountability model for ISE developed is shown as **Figure 1** below:

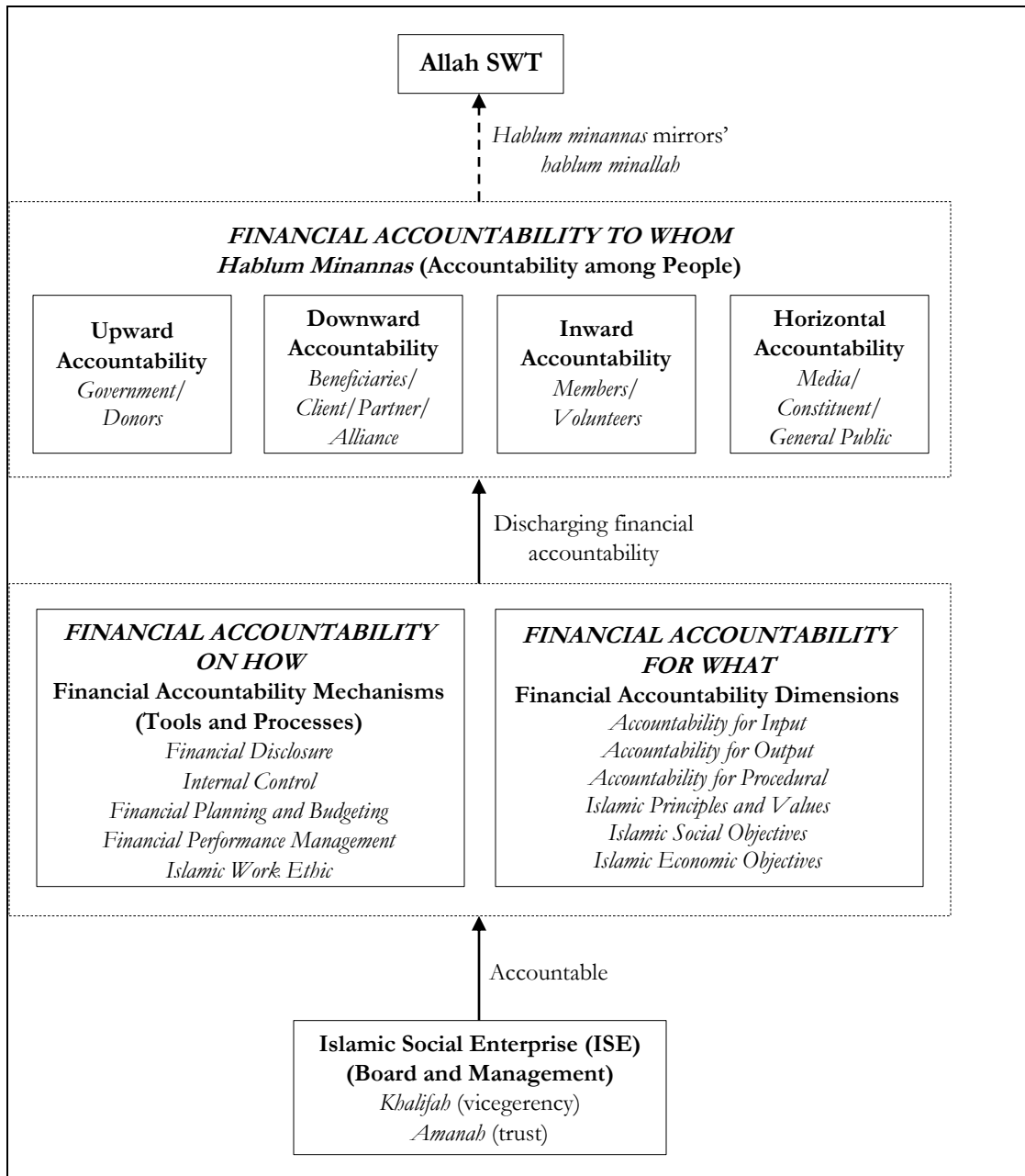


Figure 1: Integrated Islamic Financial Accountability Model for ISE

Based on **Figure 1**, an integrated Islamic accountability model consists of three accountability aspects, there are: (i) accountability to whom; (ii) accountability for what; and (iii) accountability on how (Candler & Dumont, 2010; Ebrahim, 2010; Najam, 1996). Under accountability to whom aspect, this model adopted dual Islamic accountability concept which makes up: (i) accountability to Allah (*hablum minallah*); (ii) and accountability among people (*hablum minannas*) (Ibrahim, 2000; Ibrahim & Yaya, 2005; Lewis, 2006). This model adopted previous opinion where *hablum minallah* will be achieved once *hablum minannas* is achieved (Nahar & Yaacob, 2011; Saad et al., 2014). Meanwhile, *hablum minannas* is achieved when ISE successfully discharges its

financial accountability for what through financial accountability on how. Besides, this model also classify ISE stakeholders based on four accountability groups namely: (i) upward accountability; (ii) downward accountability; (iii) inward accountability; and (iv) horizontal accountability (Bovens, 2007; Brown et al., 2001; Candler & Dumont, 2010; Gagne, 1996; Kearns, 1994; Chene, 2013).

There are five main financial management components that are believed to address financial accountability on how aspect. They act as an accountability mechanism in order to discharge financial accountability. This includes: (i) financial disclosure; (ii) internal control; (iii) financial planning and budgeting; (iv) financial performance management; and (v) Islamic work ethics. Under financial disclosure, financial accountability can be achieved when financial disclosure will ensure Islamic charity funds collected/generated are being used (spent/ disbursed) as planned. Meanwhile, under internal control, financial accountability can be achieved when internal control will ensure Islamic charity funds managed adheres to the procedures and *shariah rules*. Next, under financial planning and budgeting and financial performance management, financial accountability can be achieved when both financial planning and budgeting and financial performance management will ensure activities conducted achieve targeted results in both social and economic objectives and according to *shariah*. Last but not least, under Islamic work ethics, financial accountability can be achieved when Islamic work ethics will ensure that the operations of ISE are conducted appropriately.

As for financial accountability for what aspect, this study adopted Candler and Dumont's accountability dimension which consist of: (i) accountability for input - financial resources, volunteer resources and reputational capital; (ii) accountability for output - goods and services, social capital and policy impact; and (iii) accountability for procedural - legal, formal mission, ethical and legitimacy (Candler & Dumont, 2010). The justifications to adopt Candler and Dumont's accountability dimensions for this study are based on following three rationales which are:

1. It provides solid basis to address the conceptual confusions and dysfunctions in accountability concept and mitigate the conflict among disparate relationships of accountability. Therefore, this accountability dimension provides in-depth understanding on how an organisation is accountable to meet and balance conflicting demand from various groups of their stakeholders.
2. This study is focusing on financial accountability aspect. Therefore, it is believed that Candler and Dumont's accountability dimension fits to be used as a financial accountability indicator under all three dimensions (input, output and procedural) as compared to other accountability dimensions.
3. ISE interfaces with a wide range of different stakeholders from upward, downward, inward and horizontal accountability. Besides, ISE itself is a combination of both social and economic objectives with the additions of Islamic principles and values. These lead to tensions and conflicts among stakeholders' interest. Therefore, Candler and Dumont's accountability dimensions will help in capturing a holistic view on how ISE to be accountable to all its stakeholders in terms of alignment between their conflicting demands and at the same time to balance both objectives.

In addition, as part of an Islamic organisation, it also believed that ISE is also embedded with Islamic principles and values as compared to normal SE. Therefore, another indicator for financial accountability are adopted by this model with Islamic principles and values such as *'adala* (social justice), *ihsan* (benevolence), *amanah* (trust), *ikhlas* (sincerity) and *rahmah* (compassion) (Ali, 2010). Moreover, as an entity who combines both social and economic objectives, several Islamic social and economic objectives also are believed to be included as part of financial accountability measurement in ISE. This includes *ta'awunu ala birri wattaqwa* (Islamic cooperation), *amar ma'ruf nahi*

munkar (promote goodness and eradicate evil or known as jihad), *fastabiqul khairat* (racing to do good things) and *maslahah ummah* (public interest) for Islamic social objectives. On the other hand, Islamic economic objectives can be investigated by measuring its involvement with Islamic charity funds (such as *zakat*, *waqf*, *sadaqah*, *hibah* and *qard hasan*), avoiding prohibition economic activities in Islam such as *riba'* (interest), *gharar* (uncertainty), *maysir* (gambling) and dealing with prohibited goods such as liquor and pork. Therefore, this study will also employ all highlighted Islamic principles and values as part of the financial accountability practices in ISE.

This model also is in line with previous accountability models for non-profit organisations such as Laughlin (1990); generalized accountability model Gray et al. (1996); and Blagescu et al. (2005) where there is an agency theory between principal and agent. In this case, agent (ISE board and management) needs to be responsible toward ISE stakeholders (such as donors, beneficiaries, government, and public) as to fulfil *hablum minannas* perspective. Finally, this model also stresses on ISE board and management responsibilities to ensure financial accountability can be discharged. This

is because board and management are given the power (*khilafah* concept) and trust (*amanah* concept) as part of their roles and functions to ensure that all activities and actions including financial matters are in line with good practices according to standards, regulations, policies and guidelines (Kumar & Nunan, 2002). In addition, board and management have the capacity and rights to monitor overall performance of an organisation. They are also appointed to protect the interest of stakeholders and directly involve in decision making including financial matters (Eisenberg, 1997).

CONCLUSION

A good financial management practices could be one of the mechanisms for a good financial accountability practices in order to ensure the effectiveness and the efficiency of Islamic non-profit organisations especially in relation to financial aspects. This study presents a new Islamic financial accountability model that emphasise financial aspects from Islamic perspectives such as *amanah* (trust) and *khilafah* (power) concepts. These two concepts are entrusted upon ISE BOD and management to ensure that all activities and actions taken in financial matters are in good practices. In addition, this new integrated Islamic financial accountability model also adopted dual Islamic accountability which are *hablum minallah* (accountability to Allah) and *hablum minannas* (accountability among people). By implementing this model, it is hoped that ISE will be able to discharge its Islamic financial accountability through financial management mechanisms by focusing on several suggested accountability dimensions towards specific accountability groups.

This study has laid the groundwork for several strands of future research. Since this study only focused on financial aspect, it is unsuitable to use the findings for making generalisation on other aspects such as governance and operational matters. Moreover, this study just focused on Islamic financial accountability for ISE. Other types of Islamic organisations like *waqf* institutions, *zakat* institutions and faith-based institutions have the potentials to be examined using this similar Islamic financial accountability model. This study on financial accountability can also be applied to a broader scope rather than ISE by looking at other religious types of non-profit organisations as well as general non-profit organisations.

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