

ISLAMIC PHILANTHROPY AS A DETERRENT TO POTENTIAL FRAUD

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ABSTRACT - This study aims to investigate the utilization of Islamic philanthropic institutions in Indonesia and to recommend fraud-prevention warning signals. This study employs the desk study method to conduct qualitative research with the Allocation to Collection Ratio (ACR), the disbursement speed, and the Amil Right Ratio (RHA) as early warning signals for the possibility of fraud. Data was collected from eight Islamic charitable organizations in Indonesia. Using the ACR method, the results indicated that Badan Amil Zakat Nasional (BAZNAS), Dompot Dhuafa (DD), Institut Zakat Indonesia (IZI), Lazis Muhammadiyah (Lazismu), and Baitul Maal Muamalat (BMM) have a greater potential for fraud based on higher deposited cash balances exceeding 10% (11-30%). Due to the lack of sufficient data on website searches and financial reports, the assessment of disbursement speed is not covered in this study. Other results indicated that using the RHA method, the only institution with a RHA greater than 12.5% is RZ (RHA 13.8%), which has a greater potential for fraud due to the orientation of the institution's responsibility towards the institution's interests rather than the interests of non-amil *mustahik*. This study contributes to providing an overview of the use of funds in Islamic philanthropic institutions and fraud warning signs in order to anticipate and prevent potential fraud.

Keywords: Islamic Philanthropy, Warning Signals, Fraud

ABSTRAK – *Filantropi Islam Sebagai Pencegah Potensi Fraud*. Studi ini ditujukan untuk mengeksplorasi pendayagunaan lembaga filantropi Islam di Indonesia dan memberikan rekomendasi warning signals sebagai upaya pencegahan terhadap potensi fraud. Studi ini merupakan penelitian kualitatif menggunakan metode desk study dengan tiga metode sebagai warning signal terhadap potensi fraud: metode ACR (Allocation to Collection Ratio), Disbursement Speed dan Rasio Hak Amil (RHA). Studi ini menggunakan objek data delapan lembaga filantropi Islam di Indonesia. Hasil studi menunjukkan melalui metode ACR: Badan Amil Zakat Nasional (BAZNAS), Dompot Dhuafa (DD), Institut Zakat Indonesia (IZI), Lazis Muhammadiyah (Lazismu) dan Baitul Maal Muamalat (BMM) memiliki potensi fraud yang lebih tinggi didasarkan pada saldo kas yang mengendap lebih tinggi di atas 10% (11-30%). Penilaian disbursement speed tidak dijelaskan dalam studi ini dikarenakan tidak adanya informasi yang memadai pada penelusuran website dan laporan keuangan. Hasil studi lainnya menunjukkan melalui metode RHA, satu lembaga dengan RHA >12,5% adalah RZ (RHA 13,8%) memiliki potensi fraud lebih tinggi didasarkan pada orientasi tanggungjawab lembaga yang lebih berpihak kepada kepentingan lembaga daripada kepentingan pihak mustahik non 'amil. Studi ini berkontribusi memberikan gambaran pendayagunaan dana pada lembaga filantropi Islam, memberikan warning signal terhadap potensi fraud untuk mengantisipasi dan meminimalisir terjadinya potensi fraud.

Kata Kunci: Filantropi Islam, Warning Signals, Fraud

INTRODUCTION

Based on the results of a poll conducted by the Charities Aid Foundation (CAF), the 2021 World Giving Index ranks Indonesia as the most charitable nation in the world (CAF, 2021). This inauguration is inextricable from the culture of the Indonesian people, who want to help and share (*ta'awun*) in order to assist the needy and alleviate their burdens (Kasri, 2013). The implementation of zakat, *infaq*, *shodaqoh*, and *waqf* (ZISWAF) in Indonesia, the country with the world's biggest Muslim population, contributes to the generosity of the Indonesian people (Al-Jaza'iri, 2017). The ZISWAF instrument is a kind of philanthropy in Islam, which is a religious commandment that is an obligation/recommendation for every Muslim. In the CAF report, Indonesia's largest contributor is the extremely robust and widespread application of zakat, which has a significant impact on the Indonesian economy. This is corroborated by data on national zakat receipts in Indonesia in 2019, which amounted to IDR 10.22 trillion and were distributed to the tune of IDR 8.68 trillion, accounting for 84.9% (BAZNAS, 2019).

The significant amount of money gathered as a result of philanthropic initiatives in Indonesia demonstrates that the Indonesian people responded enthusiastically. This charitable endeavor has yielded enormous benefits for the welfare and economic empowerment of the Indonesian populace. The amount of funds gathered by philanthropic institutions increases the opportunity for fraud during collection, management, and distribution. This is true for both small and large philanthropic organizations (Ohalehi, 2019). Strategic risk, operational risk, financial risk, and compliance risk can all contribute to fraud in philanthropic organizations (Arshad et al., 2015). During its development, it was discovered that a number of philanthropic activities in Indonesia did not adhere to the provisions of Law No. 9/1961 regarding the collection of money or goods, such as the use of personal accounts to collect funds, and that there was a lack of transparency in their financial reporting, including reports of fund receipts and distributions (Rongiyati, 2021). The possibility for fraud is elevated because the majority of fund owners (donors) prefer to commit their cash to informal institutions or individuals as opposed to institutions with established legality and official authorization from the governing agency (Kasri, 2013; Rongiyati, 2021; Ibrahim, 2011; Wahid et al., 2014). The misuse of charitable funds for personal gain falls under the category of fraud. Fraud is the act of leveraging one's responsibility to benefit oneself through the intentional misuse of power (ACFE, 2017). In charity, fraud is the misuse of



funds for personal gain. Fraud disregards materiality and is not determined just by the extent of the loss (Bernardi & Pincus, 1996). Fraudulent philanthropy may also involve the misuse of funds contrary to the *amanah* of the *muwakkif* (the owner/donor of the *waqf*) (Andirja, 2020).

A philanthropic organization is a non-profit organization formed for charitable purposes, which is a noble and non-profit activity, so it is quite surprising that this institution is used as a conduit for fraudulent activities such as embezzlement of funds by unscrupulous individuals and the misuse of charitable fundraising for personal gain (Arshad et al., 2015). These fraudulent tactics and abuses of authority have the potential to destroy public faith in the credibility of non-profit organizations, so threatening their long-term existence. Because non-profit organizations depend on a positive public image and a positive public perception of the credibility of fund management, the occurrence of fraud will have a negative impact on the difficulty of maintaining the trust of fund owners and will have significant implications for subsequent fundraising efforts (Lauck & Brozovsky, 2018). This will have a significant impact on the establishment of non-profit organizations, particularly philanthropic institutions, in the context of efforts to alleviate poverty in Indonesia and improve the welfare and quality of life of the people.

Non-profit organizations are among the four types of organizations/institutions most negatively affected by fraud (2.9%) (ACFE Indonesia Chapter, 2019). Non-profit organizations typically operate with limited resources, mutual trust relationships inherent in an atmosphere of public trust (Lauck & Brozovsky, 2018), lack of segregation of duties between departments (Ohalehi, 2019), lack of transparency and accountability (Ortega-Rodriguez et al., 2020), weaker internal control procedures, and a lack of business and financial expertise compared to commercial organizations (Arshad et al., 2015). The 2019 Indonesia Fraud Survey reveals that non-profit organizations have the highest average value per fraud event at >\$10 billion (by 17.4%) (ACFE Indonesia Chapter, 2019). This indicates that fraud committed by non-profit organizations is categorized as a major crime against the management of large funds and demonstrates the lack of attention paid by non-profit organizations to supervision and internal control systems, as well as the implementation of anti-fraud programs aimed at the prevention, detection, and mitigation of fraud.



In order for charitable institutions and activities in Indonesia to flourish and contribute to the eradication of poverty, it is imperative to engage in anti-fraud prevention measures. The supervision of financial and non-financial indicators as an early warning of fraud and misuse of funds and to limit negative effects on company viability can be used to avoid fraud in philanthropic organizations (Arshad et al., 2015). In their research, Kummer et al. (2015) suggest implementing anti-fraud regulations, establishing a whistleblowing mechanism, and recording fraud risk as an effective fraud prevention and detection device. To achieve social sustainability, Ortega-Rodriguez et al. (2020) emphasized the significance of transparency and excellent corporate governance in philanthropic organizations. Ohalehi (2019) emphasizes the significance of an internal control system and a better governance structure (good corporate governance) for philanthropic institutions of all sizes to protect themselves from potential fraud. Abu Khadra and Delen (2020) emphasized the significance of implementing good corporate governance (GCG) in combating fraud. Moreover, Wahyuni-TD et al. (2021) tested the effects of GCG and fraud prevention on the performance of zakat institutions with positive results, but there was no significant effect of the principle of fairness of GCG on zakat performance with fraud prevention, indicating that zakat institutions should pay more attention to the application of justice to avoid fraud, and the principle of justice is an early signal that can be used to detect whether there is fraud.

The basis of Islamic philanthropic activity is the provision of voluntary funds issued by Muslims on the basis of goodness (*tabarru'*), which does not expect rewards and profits and the funds are used solely for welfare and improving the quality of life in the community (KNEKS, 2019), which is a mandate that must be carried out, and it is the responsibility of the manager to distribute the funds in accordance with the mandate of the funder in accordance with the provisions of the provision (Andirja, 2020). The management of these gift funds is governed by the Shari'a's law (*fiqh*), which has implementation provisions and norms.

This study aims to investigate the utilization of Islamic philanthropic institutions in Indonesia and present recommendations for warning signals to identify potential fraud, so that philanthropic funds can be managed and channeled to the appropriate parties in line with *amanah*. This philanthropic study is limited and focuses on community fundraising through people, formal and informal organizations, and institutions, excluding government grants (allocations from the state budget) and corporate CSR funding (allocation of



funds from internal companies). This study assists in multiple ways, including assisting Islamic charity institutions in resolving fraud-related issues and developing an internal control system. By identifying the root causes of fraud, the likelihood of fraud can be decreased or managed. Second, this study aids Islamic charity institutions in generating early-warning signals to predict and prevent probable fraud.

LITERATURE REVIEW

Islamic Philanthropy

The term philanthropy is derived from the Greek terms Philo and Anthropos, which imply "human love." The KBBI defines philanthropy as love (generosity) towards others. Philanthropy is a sort of care for another person or group of people that is motivated by altruism (Makhrus, 2018). The terms *shodaqoh*, *al-birr*, *ata' khayri*, *al-ata' al-ijtima'i*, and *al-takaful al-insani* are related with Islamic generosity (human solidarity). Islamic philanthropy is a sort of charity to others anywhere and at any time, which is a requirement and advice for Muslims under Islamic law (Makhrus, 2018).

Islamic philanthropy has two methods: first, it is a binding requirement on every Muslim in the form of zakat (obligatory legislation), and second, it is a recommendation or act of kindness called out to every Muslim (sunnah) as a kind of generosity instrument: *infaq*, *shodaqoh*, *waqf*, and *hibah*. According to Al-Jaza'iri (2017), zakat is obligatory for every Muslim who possesses assets that have attained the *nishab* under certain conditions. *Infaq* is a sunnah practice that is more expansive than zakat on a Muslim's property (Al-Jaza'iri, 2017). *Shodaqoh* refers to all of a Muslim's good actions, both material (wealth) and immaterial (Al-Jaza'iri, 2017). *Waqf* is the holding of an asset so that it cannot be inherited, sold, or donated, and the proceeds are distributed to the beneficiary (Al-Jaza'iri, 2017). *Hibah* is a gift offered by a someone who has had money or property taken from him (Al-Jaza'iri, 2017).

Three actions comprise Islamic philanthropy: collecting, management, and distribution (KNEKS, 2019). Collecting funds from property owners (*muzakki*, *wakif*, and contributors) includes all activities, from socialization through accepting funds by charitable officers. Planning, resource management, fund management, and monitoring and evaluation are examples of management activities. Distribution activities comprise of the process of distributing funds to *mustahiq*, *mauquf 'alaih*, and receivers of donations in accordance with



Islamic law. The allocation of Islamic philanthropy contributions to both the consumption sector (education, health, social, and *da'wah*) and the production sector (growth of the halal industry) is anticipated to alleviate poverty and boost the national economy (KNEKS, 2019).

Fraud

Fraud is the practice of exploiting one's responsibility to satisfy one's own self-interest by profiting oneself through the intentional misuse of power (ACFE, 2017). According to fraud theory, there are three primary reasons why individuals commit fraud: pressure, opportunity, and justification (see Figure 2.1) (Cressey, 1950). Pressure can originate from other people, the environment, or extremely urgent personal requirements, and it can be brought on by greed (moral hazard) and a high standard of living (extravagant lifestyle) (Akmal, et al., 2020; Ibrahim, 2018; Kamri, et al., 2014).

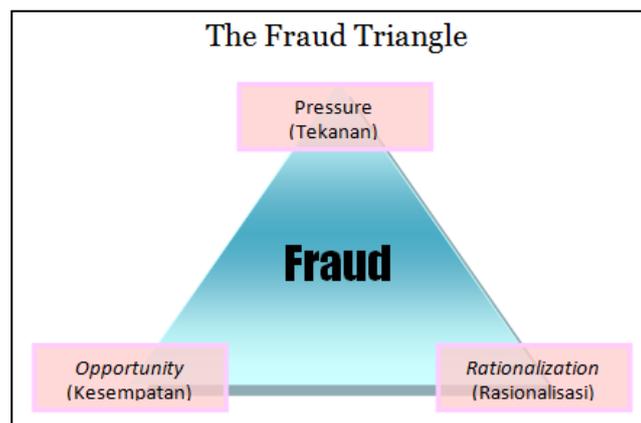


Figure 1. Fraud Triangle Theory
(Source: Cressey, 1950)

The opportunity factor frequently arises as a result of the institution's inadequate internal management structure; charitable institutions, in particular, are typically operated on the basis of kinship without effective control and monitoring. This creates possibilities for individuals who initially had no desire to commit fraud, but given the opportunity and insufficient supervision, they will be compelled to commit fraud and misuse of funds, especially in the lack of reporting requirements and financial statement openness. The rationalization or explanation for committing fraud is influenced by a lack of understanding of the rules and responsibilities, as well as limitations on the management of funds or other assets, which mandate that they must be distributed to those who are entitled to receive them, but are used for personal gain, such as using donated



funds for personal interest and not returning them on the grounds of compensation for work and repeated announcements for their actions due to the lack of accountability.

METHODOLOGY

This study is a qualitative investigation employing the approach of desk research. Desk research or desk study refers to secondary data or data obtained without fieldwork. This strategy comprises library and online searches (Hague, 2006). A number of sources, including articles' periodicals, books, statutes, and other relevant sources, have been accessed to acquire data. This study provides information on eight Islamic charitable organizations in Indonesia, namely BAZNAS, RZ, DD, IZI, Lazismu, Lazisnu, BMM, and Yatim Mandiri. These eight institutions are Islamic philanthropic organizations in Indonesia that have a nationwide operational scope, publish comprehensive financial reports on the collection and distribution of contributions, and are accessible via the internet (official website).

The following website provides access to financial reporting data for Islamic charity institutions, including fundraising reports, distribution of cash reports, and allocation of *amil* rights reports.

Table 1. Islamic Philanthropic Institution in Indonesia

No	Institution	Website
1	BAZNAS	https://baznas.go.id
2	LAZ Rumah Zakat Indonesia	https://www.rumahzakat.org
3	LAZ Dompot Dhuafa Republika	https://dompetdhuafa.org
4	LAZ Inisiatif Zakat Indonesia	https://izi.or.id
5	LAZ Muhammadiyah	https://lazismu.org
6	LAZIS Nahdlatul Ulama	https://nuicare.id
7	LAZ Baitulmaal Muamalat	https://bmm.or.id
8	LAZ Yatim Mandiri	https://www.yatimmandiri.org

(Source: Processed data, 2021)

The data analysis technique includes fund distribution ratio analysis and *amil* rights ratio calculation analysis. The examination of the fund distribution ratio is performed by making a comparison of the funds that were collected with the funds that were distributed (allocation to collection ratio). The purpose of this study is to determine how much effort charitable organizations put into distributing monies contributed by members of the public and reducing the



amount of prudence deposited funds require in order to protect themselves from the possibility of fraud. The calculation of the AMI rights ratio is analyzed by contrasting the result with the total amount of cash distributed. This evaluation is to determine how committed philanthropic institutions are to maximizing funds that have been received from the community and have been allocated to the needs of the ummah while simultaneously minimizing the portion of the internal allocation of 'amil, including both *bisyaroh* allocation and the operational costs of the institution.

RESULT AND DISCUSSION

Utilization of Islamic Philanthropy in Indonesia

Islamic philanthropy in terms of zakat and non-zakat (*infaq, shodaqoh, waqf*, and other religious social funds) aims to improve the well-being of individuals, alleviate poverty, and enhance the standard of living (BAZNAS, 2018). To maximize its benefits, its distribution and use must adhere to Islamic law and applicable laws and regulations. *Mustahik* zakat is limited to eight classes (*ashnaf*): the *faqir*, the poor, the 'amil, the *muallaf*, the *riqab*, the ghorimin, sabilillah, and Ibn sabil (Al-Jaza'iri, 2017). Non-zakat *mustahik* is not restricted to *ashnaf* and may be allocated to other organizations per the funder's instructions (Andirja, 2020). Education, health, humanity, da'wah, and advocacy can be targeted for distribution. Utilization may include support in enhancing productive capacity, entrepreneurship, life skills competency, community empowerment, and so on. The highest allocations in 2019, according to the BAZNAS money distribution report, were for social and humanitarian causes (36.9%), da'wah (25%), education (19.3%), the economy (13.5%), and health (5.2%). (BAZNAS, 2019).

Makhrus (2018) divides the usage of Islamic philanthropy into two categories: consumption and production. Health, education, and social assistance are examples of consumptive usage. The productive utilization may include the development and empowerment of MSMEs as well as the empowerment of the community. Good management is applied to the utilization of these funds, beginning with the planning, determining, implementing, and evaluating phases, so that the process can run smoothly and be measured. Utilization programs are conducted in addition to charitable (short-term) programs, particularly for emergency assistance such as natural disasters, also by establishing long-term programs by utilizing forms of activity that make the community more economically independent, so that it has a greater impact on



alleviating poverty and also improves the quality of the people (Makhrus, 2018).

This study provides information on the collection and distribution of funds by eight Islamic philanthropic organizations in Indonesia: BAZNAS, RZ, DD, IZI, Lazismu, Lazisnu, BMM, and YM (see Table 4.1). Included in the data collection are zakat and non-zakat funds, including *infaq*, *shodaqoh*, *waqf*, and other religious social funds (DSKL). Distribution information includes the allocation for eight *ashnaf* (specific zakat) and other consumptive and productive assistance. The table also displays the portion of *amil* rights allocated to salaries (*bisyaroh*) and operational expenses for administrators and *amil* officers who assist in every process beginning with the collection, management, and distribution of funds so that these philanthropic funds are channeled in accordance with the regulations and their designation. The allocation to collection ratio (ACR) is calculated to determine the ratio of absorption/distribution of funds, and the *amil* rights ratio (RHA) is calculated to determine the size of the *amil*'s portion of the collected funds. In the following discussion, the ACR and RHA are used as one of the warning signs of potential fraud in philanthropic institutions.

Table 2. Collection and Distribution of Indonesian Islamic Philanthropic Institutions

No	Institutions	Year	Collection	Allocation	Amil Right	ACR	Category	RHA
1	BAZNAS	2019	4,420,134,577,697	3,339,386,373,405	310,562,932,727	75.5%	Effective	9.3%
2	RZ	2020	223,144,145,509	200,930,742,839	27,773,028,621	90.0%	Highly Effective	13.8%
3	DD	2020	370,007,990,385	330,425,427,795	38,065,009,282	89.3%	Effective	11.5%
4	IZI	2020	96,329,189,782	80,239,026,310	12,037,437,955	83.3%	Effective	12.5%
5	Lazismu	2020	40,022,367,557	32,118,694,101	n/a	80.3%	Effective	n/a
6	Lazisnu	2020	781,740,400,439	732,186,921,139	n/a	93.7%	Highly Effective	n/a
7	BMM	2020	83,494,980,465	66,264,941,077	6,127,033,625	79.4%	Effective	12.1%
8	YM	2020	121,288,691,137	119,323,963,185	26,987,231,823	98.4%	Highly Effective	12.1%

(Source: Processed data, 2021)

The National Amil Zakat Agency (BAZNAS) is an official state agency that administers zakat on a national scale. BAZNAS is responsible for coordinating all zakat *amil* institutions in Indonesia, including the *Amil* Zakat Institution (LAZ) and the Zakat Collection Unit (UPZ). LAZ is a private institution established by the community and authorized by the government to aid in the collection and distribution of zakat. UPZ is an organizational unit created by BAZNAS for the purpose of zakat collection. BAZNAS collected IDR 4.4 trillion in 2019 from zakat maal-income (43.6%), zakat maal-institution (3.4%),



zakat fitrah (15.5%), tied *infaq/shodaqoh* (7.9%), untied *infaq/shodaqoh* (28.5%), and CSR funds (1.1%). The funds were then allocated in the following proportions: economy (13.5%), education (19.3%), da'wah (25%), social humanity (34.9%), and health (5.2%). If it is based on *ashnaf*, the distribution is as follows: the poor (66.3%), the *'amil* (9.3%), the converts (0.016%), the *riqab* (0.1%), the *gharimin* (2.3%), *fii sabilillah* (19.9%), and *ibn sabil* (2.1%) (1.5%). According to information regarding the collection and distribution of BAZNAS funds, the funds settled at the end of 2019 with an ACR of 75.5%. The *amil* rights are valued at 310.5 billion IDR with a RHA of 9.3%.

RZ is a LAZ with 51 representative offices throughout Indonesia, headquartered in Bandung. RZ generates philanthropic funds via community empowerment programs with four main clusters: "*senyum juara*" (education), "*senyum sehat*" (health), "*senyum mandiri*" (economic empowerment), and "*senyum lestari*" (environmental sustainability initiative). RZ was able to collect a total of IDR 223.1 billion in zakat funds in 2020, which included professional zakat, savings zakat, trade zakat, zakat fitrah, gold and silver zakat, stock and investment zakat, gift zakat, agricultural zakat, livestock zakat, zakat *muqayyad*, and placement results. The funds were then distributed for a total of IDR 200.9 billion to the poor, *fi sabilillah*, converts, *ghorimin*, *ibn sabil*, and *amil*, in addition to the allocation of zakat-managed assets. According to data on the collection and distribution of RZ funds, the funds deposited at the end of 2020 totaled IDR 22.2 billion with an ACR of 90%. The *amil* rights were valued at IDR 27.7 billion and had a RHA of 13.8%.

DD is a LAZ headquartered in Jakarta with 27 domestic branches and five overseas branches dedicated to reducing community poverty by empowering people and humanity. In 2020, the poverty alleviation program will benefit 3.15 million out of Indonesia's total poor population of 26.42 million people (11.92%), with a total of IDR 370 billion collected from zakat funds (55.1%), *infaq* (10.52%), bound *infaq* (3.36%), *qurban* (17.88%), social humanity (8.12%), and *waqf* (5.02%). The funds were then allocated to the fields of education (10.04 %), health (6.85%), social (19.29%), economy (11.82%), da'wah and culture (1.59%), humanitarian (12.19%), advocacy (0.01%), stocking of sacrificial animals (19.29%), ZISWAF socialization (7.35%), and institutional operations for a total of IDR 330.42 billion (11.52%). Based on information regarding the collection and distribution of DD funds, the deposited funds at the end of 2020 amounted to IDR 39.5 billion with an ACR of 89.3%. The *amil* rights were worth 38 billion IDR, with a RHA of 11.5%.



IZI is a LAZ headquartered in Jakarta with 16 branches across Indonesia that aims to develop a community self-reliance program through five primary programs: IZI to success, IZI to smart, IZI to fit, IZI to faith, and IZI to help. IZI was able to raise IDR 96.3 billion for zakat funds in the form of zakat maal and zakat fitrah in 2020, and distributed IDR 80.2 billion to the poor, gharim, converts, sabilillah, and *ibn sabil*. Totaling IDR 22.8 billion, non-zakat funds were channeled into humanitarian, education, health, economic, Islamic world, rehabilitation, *da'wah*, and *qurban* programs in the amount of IDR 21.68 billion. With an ACR of 83.3%, funds settled by the end of 2020 totaled IDR 16 billion. The *amil* rights cost 12 billion IDR and have a RHA of 12.5%.

Lazismu is a LAZ sponsored by the Muhammadiyah religious organization, which has a network spanning 31 provinces, 225 cities, and 1,019 service offices in Indonesia. Lazismu raised 40 billion IDR in 2020 for zakat and *infaq* funds. The money was then allocated to 32,1 billion IDR worth of education, health, economic, *da'wah*, and humanitarian programs. Funds settled by the end of 2020 totaled 7.9 billion IDR with an ACR of 80.3%. Lazismu is a LAZ operating under the auspices of the religious organization Nahdlatul Ulama (NU), which has a network spanning 34 provinces and 376 regencies/cities in Indonesia, in addition to 12 foreign representative offices. In 2020, Lazismu raised a total of 781,7 billion IDR. The funds were then allocated in the amount of IDR 732.1 billion to economic, socio-religious, health, education, and humanitarian programs. With an ACR of 93.7%, funds settled by the end of 2020 totaled IDR 49.5 billion.

BMM is a LAZ with its headquarters in Jakarta. In 2020, BMM raised IDR 83.4 billion and distributed IDR 66.2 billion through three main programs: the distribution (consumptive), utilization (productive), and cooperation programs (investment). The distribution program includes muamalat social security, muamalat healthy community, BMM rescue, muamalat blessing house, and public facility provision. Muamalat forerunners, muamalat scholars, tahfidz muamalat, muamalat solidary boarding school, hamlet zakat muamalat, muamalat friends of SMEs, sharing smartphones and infrastructure are all part of the utilization program. The IDB kafala, the Hasene kafala, and the King Abdullah Foundation are all part of the collaboration program. The total amount of funds settled at the end of 2020 was 17.2 billion, with an ACR of 79.4%. The *amil* rights were worth IDR 6.1 billion, with a RHA of 12.1%. Yatim Mandiri is a LAZ that focuses on improving orphans' quality of life through orphanages and post-care education, as well as providing skills for economic



independence. Yatim Mandiri raised IDR 121.2 billion in 2020 and channeled IDR 119.3 billion into education, empowerment, health, humanitarian, *da'wah*, super nutrition, *qurban*, and *waqf* programs. The total amount of funds settled at the end of 2020 was IDR 1.9 billion, with an ACR of 98.4%. The *amil* rights were worth IDR 26.9 billion, with a RHA of 12.1%.

Fraud Potential in Islamic Philanthropy

The most common objective of a wide variety of fraudulent schemes and illegal activities is financial gain. In addition to the fact that money can be easily converted into anything else in order to meet the needs of the perpetrator (Christensen & Byington, 2003), another reason why cash theft is so common is that it is much simpler to commit than other types of asset theft (Byington & McGee, 2012). The urgent need for financial needs is the most dominant pressure for someone to commit fraud, as financial motives are more dominant in causing fraud than non-financial motives. Financial motives are more dominant in causing fraud than non-financial motives (Hollow, 2014). Even charitable organizations that provide services such as shelter and fund distribution are not immune to the possibility of fraud (Ohalehi, 2019). Furthermore, the funds that are collected and managed by charitable organizations are not insignificant, and the majority of the receipts of funds from property owners are cash on hand and bank account balances. When funds are received through a bank transfer, there is still the possibility of fraud taking place if the bank account uses an account that is held in the name of an individual rather than an account that is held in the name of an official institution (Rongiyati, 2021).

In most cases, the activities of fundraising, fund management, and fund distribution present the greatest opportunity for fraudulent activity within Islamic charitable organizations. First, whenever funds are transferred from property owners to philanthropic officers, especially in the form of cash on hand, there is a risk of fraud in fund management activities. This is a unique challenge. Fraud occurs when cash received by philanthropic officers is not deposited into the institution, either to the treasurer or through the institution's official account. Instead, unscrupulous officers use the money for their own personal gain, committing the crime of fraud (Greenlee et al., 2007). Second, the institution's large cash balance, combined with a lack of oversight over the management of these funds, raises the possibility of fraud in fund management activities. This is due to the fact that there is no oversight over the management



of these funds (Ohalehi, 2019). Third, there is the possibility of fraud occurring during the fund distribution process if funds are given to parties other than those who are entitled to receive them under Islamic law and parties other than those who meet the criteria that the donor has mandated. This category includes the practice of allocating funds for non-Islamic law-compliant purposes. One example is the use of social funds for profit-making activities such as investment and business (Andirja, 2020).

Warning Signals Against Potential Fraud in Islamic Philanthropy

It is very important and urgent for Islamic philanthropic institutions to identify warning signals that can lead to the possibility of fraud and as an anti-fraud program so that fraud does not occur or can be minimized. Identifying these warning signals can help prevent or reduce the amount of money lost to fraud (Arshad et al., 2015). The following are some things that Islamic philanthropic institutions can use as a warning signal in order to prevent fraud, and they are as follows:

1. The Allocation to Collection Ratio (ACR) Method

A high balance of cash or funds deposited on funds from collections that have not been disbursed is one of the potential sources of fraud in philanthropic institutions (Ohalehi, 2019). When funds are received from donors, they should ideally be distributed directly to the recipients, so that the benefits of philanthropic funds can be felt directly by those in need. When the funds deposited can be received directly, the donor's blessing is also maximized. The ACR method is commonly used to assess the efficacy of philanthropic institutions in disbursing funds. The ACR method can also be used to detect potential fraud. ACR, or absorption of funds, is the ratio of distribution to collection (Nafi', 2020). ACR is used as an indicator to assess the effectiveness of a philanthropic institution's performance in disbursing funds. Beik et al. (2016) divide the ACR assessment into five categories: highly effective (90%), effective (70-89%), fairly effective (50-69%), below expectation (20-49%), and ineffective (20%). The higher the ACR, the more effective it is, and the lower the ACR, the less effective it is. Based on the ACR calculations of eight philanthropic institutions in Indonesia in this study, three highly effective institutions stand out: RZ with an ACR of 90%, Lazisnu with an ACR of 93.7%, and Yatim Mandiri with an ACR of 98.4%. BAZNAS had an ACR of 75.5%, DD had an ACR of 89.3%, IZI had an ACR of 83.3%, Lazismu had an ACR of 80.3%, and BMM had an ACR of 79.4%.



Philanthropic institutions with a lower ACR have a higher risk of fraud due to the large cash balance that settles. With ACRs of 90% (highly effective), RZ, Lazismu, and Yatim Mandiri have a lower potential for fraud based on smaller cash balances (10%). Due to higher deposited cash balances, BAZNAS, DD, IZI, Lazismu, and BMM have a higher potential for fraud (11-30%). The conclusion of this analysis is only a possibility due to the triggering of fraud opportunities. Opportunities arise as a result of the large deposits of funds in philanthropic institutions. According to the fraud triangle theory, one of the three causes of fraud is opportunity (Cressey, 1950). This opportunity can lead to a fraud if it is followed by two other factors: pressure and rationalization. Pressure is an intention that can be caused by both internal and external factors. Internal pressures can include pressure on life's necessities, pressure to improve one's quality of life, and pressure to live an extravagant lifestyle. External causes of pressure include pressure from family, pressure from superiors, and pressure from society in general on social and community demands. When pressure expectations are not met, rationalization can occur, and the fraudulent act committed is announced. Opportunities can lead to fraud when individuals who initially have no intention, but with the opportunity and ability, combined with weak supervision and the absence of demands for financial reporting and transparency, are moved to commit fraud by misusing and using funds for personal interests.

2. The Disbursement Speed Method

Another indicator of the possibility of fraud involving funds deposited in charitable organizations is the speed with which funds are distributed. The speed of disbursement is a measurement tool used to assess the success of the funds, and it is determined by how quickly the funds are collected until they are distributed to the recipients. The faster the allocation, the fewer funds are available for deposit, increasing the risk of fraud involving the funds that have been deposited. According to Beik et al., (2016), the speed of disbursement can be classified into five categories: fast (less than three months), good (three to six months), moderate (six to nine months), slow (nine to twelve months), and very slow (over twelve months). Because there was no information found regarding the speed of disbursement based on the websites and financial reports of the eight charitable organizations included in this study, it is not possible to explain the speed of disbursement as a warning signal against the possibility of fraud in this particular study.



3. The Amil Rights Ratio (RHA) Method

The most common type of fraud in non-profit institutions involves employees who have a motive for misappropriating assets, particularly the misuse of philanthropic funds for personal gain (Fish, 2020). Employee fraud in philanthropic institutions causes their responsibilities to be oriented more toward personal and institutional interests than *mustahik* parties' interests (who are entitled to receive funds). Philanthropic institutions are institutions that channel philanthropic funds from donors to *mustahik*. Philanthropy funds are not business assets that can be claimed by institutions for free use, and these funds are an *amanah* that must be channeled to *mustahik* (Alim, 2015). 'Amil' is one of the groups that become *mustahik* for zakat funds. *Amil* is a government-appointed person tasked with collecting zakat from *muzakki* (people who have met the criteria for zakat obligations) (Tuasikal, 2010). According to MUI, an *amil* is a person appointed by the government or a person formed by the community with permission and approval from the government (MUI, 2011). This means that *amil* who meet the two criteria above, namely people appointed by the government or who receive permission and approval from the government, are included in the *mustahik* zakat group and are entitled to a portion of the allocation of zakat funds. If they do not meet these two criteria, they are not considered *amil* and are not entitled to a share of the zakat funds.

The proportion of the zakat fund allocated to the '*amil*' is determined by the amount of work done (Tuasikal, 2010). There is no regulation from the government or the MUI fatwa regarding the allocation of zakat funds to '*amil*'. Beik et al. (2016) limit the portion of *amil* rights to a maximum of 12.5% of total zakat receipts, calculated from one-eighth of the *ashnaf* of zakat recipients. Based on the calculation of the RHA of eight philanthropic institutions in Indonesia in this study, one institution, RZ, has a RHA greater than 12.5%. BAZNAS has a RHA of 9.3%, DD has a RHA of 11.5%, IZI has a RHA of 12.5%, BMM has a RHA of 12.1%, and Yatim Mandiri has a RHA of 12.1%. Lazismu and Lazisnu, two philanthropic institutions, did not mention the %age of *amil* funds.

The higher the RHA of a philanthropic institution, the greater the potential for fraud; this is based on the institution's orientation of responsibility, which is more in favor of personal and institutional interests than non-*amil mustahik* parties. Because the funds collected from the community are basically deposit



funds that must be channeled to be allocated to *mustahik* for alleviating poverty and improving the community's quality of life, the high ratio of *amil* rights will increase the potential for high fraud. If the portion of the *amil* rights is excessive, it can be considered a fraud because the funds are used for personal and institutional interests rather than community benefit. A greater allocation to personal and institutional interests can also be considered an injury to the trust of philanthropic institutions as donors' representatives, where an *amanah* must be fulfilled with an allocation in accordance with Shari'a provisions (Andirja, 2020).

CONCLUSIONS

This study seeks to investigate the utilization of Islamic philanthropic institutions in Indonesia and provide recommendations for fraud-prevention indicators. This study presents information on the collection and distribution of funds from eight Islamic philanthropic institutions in Indonesia, namely BAZNAS, RZ, DD, IZI, Lazismu, Lazisnu, BMM, and Yatim Mandiri, gathered through a desk study. The possibility of fraud cannot be excluded from philanthropic institutions and the distribution of funds. In Islamic philanthropic institutions, the potential for fraud exists in the collection, management, and distribution of funds. The potential for fraud in fund management activities exists when property owners transfer funds to philanthropic officers, especially in cash. Due to the institution's high cash balance and the absence of supervision over the management of these funds, the potential for fraud in fund management activities is present. Fraud risk in fund distribution activities when funds are allocated to parties other than those entitled to receive them under Islamic law and parties who do not meet donor-mandated criteria.

As part of identification and anti-fraud efforts against Islamic philanthropic institutions, it is necessary to identify potential fraud indicators. In this study, the ACR method, the speed of disbursement, and the RHA are proposed as potential fraud warning signals. Based on the ACR method, philanthropic institutions with a low ACR and a high cash settlement balance have a greater potential for fraud. RZ, Lazismu, and Yatim Mandiri, which have an ACR of 90% (extremely effective), have a lower fraud risk (10%) based on their smaller cash balances. Based on their larger deposited cash balances, BAZNAS, DD, IZI, Lazismu, and BMM have a higher fraud risk (11-30%). The disbursement speed assessment cannot be explained in this study because website searches and financial reports from the eight philanthropic organizations included in this



study did not yield sufficient information. Based on the RHA method, the higher the RHA of a philanthropic institution, the greater the potential for fraud. This is due to the orientation of the institution's responsibility, which favors personal and institutional interests over those of non-*amil mustahik*. In this study, there is one institution whose RHA is greater than 12.5%, namely RZ with a RHA of 13.8%. BAZNAS has a RHA of 9.3 %, DD has a RHA of 11.5%, IZI has a RHA of 12.5 %, BMM has a RHA of 12.1%, and Yatim Mandiri has a RHA of 12.1%. Lazismu and Lazisnu, two charitable organizations, did not mention the proportion of *amil* funds.

This study has the following limitations: First, only eight philanthropic institutions were studied; future research can collect data on all philanthropic institutions in Indonesia on a national scale. If there is insufficient information on the website, it can request more information directly from the relevant institution. Second, rather than including only the most recent year of financial reports in the study, future research can include a range of data with a minimum average of three years so that the data obtained is more equitable and can describe a more stable financial condition. As a result, the results obtained are more accountable.

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