

The Development of *Waqf* Accounting in Enhancing Accountability

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Abstract: The resurgence of *waqf* institutions creates the need to establish good accounting system for these institutions. The aim of this paper is to evaluate the needs for developing accounting standards and Statement of Recommended Practice for Charity (SORP) based on the AAOIFI (Accounting and Auditing of Islamic Financial Institutions) framework. The purpose of *waqf* is to provide recurring charity that generates continuous income flow to the needy. *Waqf* accounting may improve transparency and enhance accountability of *waqf* institutions in Malaysia. The absence of guidelines or standards on accounting for *waqf* triggers the interest to examine the relevance of *waqf* accounting so that transparency and accountability of *waqf* institutions could be assured. Thus, it is suggested that accounting is a useful means to discharge *mutawalli's* (trustee) accountability in *waqf* administration and management. Further study should be undertaken to propose the appropriate accounting standards for *waqf* institutions.

Key words: Waqf • Accounting • Accountability • Mutawalli (Trustee)

INTRODUCTION

Waqf is a private possession or asset in any form that has been put under injunction from any form of transaction including sale, inheritance, *hibah* (grant) and *wasiyyah* (will) whilst its physical source (*'ain*) remains intact and unchanged. From the Islamic point of view, endowment ownership is non-permanent because it has been entitled to Allah SWT to benefit all Muslims.

It is a sincere gift in the form of private possession to the state or person of authority for the good of all Muslims as long as the wealth is used in compliance with Islamic requirements. *Waqf* property can contribute to the development of socio-economic of *ummah* like building commercial projects such as business centers and social projects such as orphanage, care centers and many others, which it is not against the *Shariah* or Islamic law.

Abu Hurairah r.a. [1] reported that Prophet *pubh* said that “when a son of Adam dies, so does his deeds except for three things: alms giving or benefited knowledge or pious son who prays for them”. In line with the Holy Quranic verse 2:261, Allah SWT said “The likeness of those who spend their wealth on Allah’s way is as the likeness of a grain which growth seven branches in every

branch contains of hundred seeds and remember Allah will give increased manifold to which he will and Allah is All Embracing and All Knowing” [2]. Both supportive evidence and rewards to the giver encourage Muslims to commit to *waqf*.

There are two types of *waqf*: (a) Family *Waqf* (*Waqf Ahli*) which is created for immediate family members that include children, grandchildren and others, (b) Charitable *Waqf* (*Waqf Khairi*) that is designated for charity purpose that can be classified into two-sub-categories; namely *Nazir Waqf* and Special *Waqf Khairi* for any legal activity that benefits the community. The endowment ownership that is known as *Nazir Waqf* is meant for the development of the land in any form that could provide benefits to the community without any ties to the types of charity or in the form of development itself. The benefits should be given to the community in the form of charity, so that the ownership will continuously gain rewards. Special *Waqf Khairi*, on the other hand, is a wealth specified by a giver to be used for specific purpose and function as stated by the *waqif* (giver). Some common purposes for *waqf* like land are to build mosque, house, school and university as well as business center.

Waqf practices among Muslims could benefit many people especially the needy. The promise of reward to the *waqf* giver in getting blessing in this world and in the Hereafter encourages them to inculcate the practice of *waqf* as commanded in Islam. Therefore, to satisfy the giver of *waqf* assets, the roles of *mutawalli* as the trustee of *waqf* asset is very important to discharge the accountability in administration and management of *waqf* institution. Therefore, the objective of the paper is to examine the relevance of accounting standard for *waqf* as a device to enhance greater transparency and accountability of *mutawalli*, particularly for *waqf* institutions.

Evolution of Accounting Practice for *Waqf*: During the Ottoman Empire, accounting in *Waqf* institutions had been extensively practiced in managing *waqf* institutions. Yayla [3] discovered some evidences of the accounting practice in Sultan Suleyman *Waqf* of the Ottoman Empire. He scrutinized Ottoman's archives and found that the bookkeeping process had been carried out at that time. Besides that, he found evidence that accounting record was used to measure performance of *waqf* by the Sultan's commissioners. Although the preparation of recording is based on the consciousness and initiative of the *mutawalli*, it is an appropriate way that could prevent the misuse of *waqf* asset.

Similarly, Toruman *et al.* [4] examined the accounting practice on *waqf*. They discovered that from 1490 to 1928, accounting practice on *waqf* had been carried out using single entry method. However, the records showed that all the information related to the cash *waqf* management and administration like annual income of properties, expenditures on daily, monthly and yearly basis as well as the increment of *waqf* assets of the year. Both studies have proven that accounting was used as a controlling device for *waqf* administration and management during the Ottoman Empire. The result is consistent with study conducted by Maliah *et al.* [5].

Recording and reporting for *waqf* in Malaysia has been inconsistent. It has been noted that different *waqf* institution has its own accounting practice. In 1999, Abdul Rahim *et al.* [6] investigated the accounting system used and the administrative style adopted by State Islamic Religious Council (SIRC) in Malaysia. From the telephone interviews with the officers of selected SIRC in Malaysia, the study found that there is a lack of accounting system for *waqf* assets, no detailed information about the *waqf* assets and there is unsystematic management of the assets. In fact, there was no written procedure of recording financial transaction relating to *waqf* assets.

They inferred that the lack of proper recording and management of *waqf* assets is due to the lack of coordination of *waqf* institutions by federal authority in Malaysia. Abdul Rahim *et al.* [6] suggested the establishment of *waqf* department which will coordinate *waqf* management in Malaysia. In addition, the accounting procedures should be improved to ensure internal control of *waqf* administration and management in Malaysia.

Siti Rokyah [7] expanded the previous study by examining the financial reports in order to determine the level of *waqf* disclosure among the SIRC in Malaysia using primary and secondary methods. She mailed questionnaires to the relevant respondents in SIRC who are directly involved in the administration and financial matters of *waqf* such as accountants or assistant accountants, accounts executives, administrative officers of *waqf*, finance officers and *waqf* clerks. This study also used secondary data from the SIRC's annual report to analyse the level of *waqf* disclosure. She reported that SIRC did not prepare annual reports on a timely basis. Many SIRC produced reports from the year 2000 and 2001 whereas the rest vary from 1994 to 1997.

Siti Rokyah's study revealed that the status of producing annual report of SIRC vary as majority of them had overdue and outdated annual reports. It showed that SIRC had low level of disclosure in their annual report. Some of SIRC reported higher level of disclosure as they have qualified accounting staff. They produced the latest annual report compared to the SIRC which showed low level of *waqf* disclosure and outdated annual reports. The main limitation found in Siti Rokyah's study is that the majority of SIRC did not provide separate account for *waqf* [7]. For that reason, no information relating to *waqf* matters could be found. In addition to that, there was no guideline in preparing and maintaining *waqf* report. She suggested a specific guideline in the form of a manual to maintain *waqf* assets and *waqf* reporting. In addition, the SIRC should hire experienced accountants so that they are able to maintain *waqf* accounting and reporting.

In 2006, Hisham [8] conducted a case study on accounting for *waqf* practice in SIRC in Malaysia. He examined the *waqf* administrative and management on accounting practice by comparing accounting practices in Malaysian Federal Territory SIRC with the Statement of Recommended Practices for Charitable (SORP) [9] in the United Kingdom. Data collection was based on interviews, observations and document reviews. He discovered that there was some improvement in *waqf* accounting in terms of bookkeeping at the Federal

Territory SIRC. But, there was no independent financial statement for *waqf* and no separation between different types of *waqf* made. The author therefore recommended that some accounting practices for *waqf* should be based on SORP 2005 for the improvement of *waqf* accounting and reporting so that the accountability of *waqf* administrator (*mutawalli*) could be assured [8].

Accountability of Mutawalli: Many scholars and practitioners claimed that the dissimilarity of *waqf* accounting practices is due to the absence of accounting standards and code of good corporate governance for *waqf*. Ihsan [10] suggested the development of accounting standards and code of good corporate governance for *waqf* because it could improve the accountability of *mutawalli* in managing *waqf*. It is supported by Shahul [11] who suggested that it is necessary to learn the existing similar standard such as SORP [9] for charity. Both of them agreed that the structure of SORP is sophisticated and could encourage the trustee of charity (*mutawalli*) to be more accountable. Thus, developing the accounting standards for *waqf* based on SORP model with some modification so that they are in line with shariah (Islamic law), will be advantageous.

Alternatively, as far as Islamic institution is concerned, the AAOIFI's Statement of Financial Accounting would be useful and helpful to develop accounting framework and standards for *waqf* institutions. The importance of accounting as a device to discharge *mutawalli's* accountability to many parties [10] [11] is supported by many scholars. Lewis [12] stressed that the primary objective of an accounting system is to aid accountability. Those in charge of economic resources must give account of their stewardship, irrespective of whether the transactions and resources in question are those of a government organisation or a private sector entity. Whittington [13] described accountability in terms of accounting by management either public or private to assist in the efficient allocation of resources by providing information for ex post monitoring of performance or for ex ante decision making by those responsible for making investment decisions.

The definition of accountability is essential as a basis of performance measurement, evaluation and reporting [14]. Nevertheless, the understanding of accountability by *mutawalli* could be different due to the different nature of *waqf* to the conventional charity practices. Sinclair [15] claimed that if there is no clear consensus about

accountability, the means to deliver it will vary. This is provided in a study by Ihsan [8] who explored the major themes that constitute the basis of the accountability for *waqf* so that the types of information that should be provided by *mutawalli* to various stakeholders are clearly defined. A Mithchell, Agle and Wood (MAW) model was suggested in his study to explain the nature of *waqf* stakeholders [16].

Previous discussions gave an insight that the construction of accountability in *Waqf* institutions is very important, especially to ensure the *mutawalli's* accountability. Since *waqf* is charitable, non-profit in nature and a religious entity, the basis of reporting and performance measurement is crucial which is subject to the definition of accountability. Haniffa [17] believes that the ultimate accountability in Islam is to Allah as all deeds will be counted on the Hereafter. Her justification is according to the verse 2:284 of the Holy Quran "To Allah belongs all that is in the heavens and on earth, whether you show what is in your minds or conceal it, Allah will call you to account for it". This verse shows to us that rendering an account to discharge accountability is recognized as part of *ibadah* (servitude to Allah) and *amal soleh* (virtuous deeds) to achieve *al-falah* (benefit for the people in this world and the Hereafter) [2].

Due to the nature of *waqf* as a charitable matter for social benefits, the idea of Cordery and Morley [18] who suggested that the charity accountability model must contain specific characteristics unlike other business entities can be pondered. Sinclair [15] defines accountability from managerial perspective as the requirement to those with delegated authority to be answerable for producing outputs or the use of resources to achieve certain ends. Generally, accountability focuses on the duty to provide account of the actions for which one is held responsible. This was supported by Cutt and Murray [14] as they believed that formal definition of accountability presumes the existence of at least two parties, one who allocates responsibility and one who accepts it with understanding to report on, account for, the manner in which it has been discharged. Sheikh Al-Safi [19] reminds that man-made definition of accountability is aimed to establish a certain material status for the individual and community. But, accountability in Islam (*taklif*) can be seen as everyone is accountable for their actions on the Day of Judgment.

Shahul [20] indicated that Islamic accountability is appropriate for *waqf* due to the religious motive of *waqf* and for *maslahah ummah* (public interest). He suggested

that the accountability of *mutawalli* is to be dual in nature; man's accountability to God as Allah's khalifah (*vicegerent*) and man's accountability to men (society). Hence, all human beings are being accountable for all resources entrusted to them as well as fulfilling any contract made between them.

In terms of accountability, a clear reporting from *mutawalli* will enable the interested stakeholders such as potential givers of *waqf*, non-governmental organizations (NGOs), politicians, business community, academicians and Islamic Financial Institutions to ensure that the management of *waqf* assets is in line with *shariah* law. Thus, Cajee [21] recommended both *shariah* advisory board and *shariah* auditing should be implemented so that the resources and utilisation of *waqf* assets are not against the Islamic law. The various stakeholders could be discharged through Islamic accounting practices. Then, *mutawalli* should provide report to giver (*waqif*), *waqf* board, beneficiaries and community.

In the same regard, information provided by *mutawalli* in annual reports should be clearly defined to avoid dissimilarity practice in reporting. Cordery and Morley [18] indicated that the identification of stakeholder's interest will assist *mutawalli* to provide relevant information to them. Accountability calls for a wider scope of reporting than accounting. Thus, in order to discharge accountability's responsibility, both quantitative and qualitative reporting should be considered. Quantitative reporting is based on the financial performance of *waqf* institution such as the amount of acquired *waqf* assets and how much is being utilised and invested to develop the *waqf* asset. The later type of reporting is non-financial information, which informs the users whether objectives are achieved with reports the progress of *waqf* programs.

There are four types of accountability in charity bodies [18]. First, Fiscal Accountability which is aimed at ensuring that money has been spent as agreed and according to the appropriate rules. The second one is Process Accountability which ensures that proper procedures have been followed to provide value for money. Third, Program Accountability ensures that institution is effective in achieving its objective. Lastly, Accountability for Priorities helps to fulfill the needs of users appropriately. The similarities of *waqf* in some respect to that of the charity bodies make it possible for these criteria to be adopted to discharge the accountability of *mutawalli*.

Roles of Federal Government to Enhance Transparency and Accountability of *Waqf* Institutions: Abdullah Ahmad Badawi, the former Prime Minister of Malaysia cited that "In addition, steps will be taken to enhance the capital resources of Muslims, like land and *awqaf* assets under the management of the State Islamic Religious Councils [22]. These State Religious Councils should fulfill obligation (*Fardhu Kifayah*) and play an active role in the economic development of the Muslim *ummah* and help in the development of human capital". As a result, the Ministry of Prime Minister Department established the Department of Awqaf, Zakat and Hajj (JAWHAR) in 2004 with the objectives of improving the management of Muslim wealth in the forms of endowment (*awqaf*), alm (*zakat*), treasury (*mal*) and pilgrim (*hajj*) [23]. However, it does not replace or take over the roles and functions of the State Islamic Council, but merely complements the functions and roles of the body in order to further strengthen the institutions of *awqaf*, to benefit Muslims. The role at Federal level is very important to ensure the management and administration of *awqaf* properties is in order, systematic and effective [7, 10]. JAWHAR aims to improve accountability of *Waqf* institutions. They do this by planning, coordinating and implementing the policies and development programs of *awqaf* institutions, particularly the State Islamic Religious Council (SIRC) and monitoring the development of *ummah* [5, 24]. Therefore, it is recommended that JAWHAR uses reporting as a tool to measure the performance of *waqf* institutions and set up guidelines to be enforced and monitored at federal level.

Benefits of the Development of Accounting for *Waqf*: Many agree that accounting is the most appropriate means to enhance greater transparency and accountability of *waqf* institutions. Thus, several ways must be taken to formulate regulatory, governance, accounting and reporting standards for *waqf* institutions with the involvement of the Accounting and Auditing Organisations for Islamic Financial Institutions (AAOIFI), International Financial Services Board (IFSB) and Islamic Rating Agency (IRA) while the Malaysian Accounting Standard Board (MASB) could also adopt them. If the *waqf* institutions could enhance its transparency and accountability, this could strengthen *waqf* institutions along with the economic growth in Malaysia by promoting and strengthening the institutions. The development of *waqf* investments according to a set of criteria and specific guidelines could ensure the stability of *waqf* institutions.

Another way to enhance the accountability of *waqf* institution is to establish a Professional Code of Conduct and a Code of Ethics for *Mutawalli*, the management and full time and volunteer workers of the *waqf* financial industry. Malaysian Institute of Corporate Governance (MICG) may play a role as an accreditation authority to enforce such professional codes. A Shariah Advisory Council must also be established to provide *waqf* institutions with the necessary expertise on shariah compliance and related issues. JAWHAR could also organise open dialogues with Malaysian Institute of Accountants (MIA) in order to facilitate systems and enabling legislation for the creation and regulation of *waqf* to develop the required accounting standard.

CONCLUSION

The paper concludes that accounting could improve the best practice in *waqf* institutions. It is an ideal mean to discharge the accountability of trustee (*mutawalli*). However, the absence of accounting standards for *waqf* is the main reason for dissimilarities of *waqf* accounting practice. An Islamic dual accountability is the most suitable element to elaborate the concept of Islamic accountability in *waqf* institutions. For that reason, the *mutawalli* should discharge accountability to various stakeholders like giver (*waqif*), *waqf* board, NGO and beneficiaries. Quantitative and qualitative types of report should be disclosed to satisfy the needs of various stakeholders. As such, accounting provides the financial matters of disclosures, thus accounting standard is necessary to overcome the dissimilarity of accounting practice for *waqf* institutions. Moreover, the roles of government especially at the Federal level should be enhanced to reinforce the *waqf* institutions.

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