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Investigating Awqaf Management, Accounting and Investment Practices in Malaysia: The Case of a State Religious Institution

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Abstract

Social economy is gaining interest as an alternative to capitalist economy. As compared to its capitalist counterpart, social based economy is ethically and morally guided. This arguably possesses close alignment to the religious based economy among Muslims – The Islamic Economics. *Waqf,* which is equivalent to endowment in the non-Islamic context, is an important institution in the Islamic socio-economic system. Widely practiced among Muslims since the Prophet Muhammad's era, *waqf* has enhanced Muslims' socio-economic strength particularly during the Ottoman era. This research revisits such religiously founded practice by examining the contemporary *waqf* accounting, reporting and investment practices of a selected *waqf* manager in Malaysia – The State Religious Institution (SRI). Adopting a qualitative approach to research inquiry using a single case study method, data were collected through interviews and documents' review. The research finds observable weaknesses in the accounting, reporting and investment for *waqf* activities particularly on *waqf* assets. The available records suggest large improvement void in the focused areas, albeit it does not tantamount to detrimental effects on SIRC's efforts in adequately safeguarding the *waqf* assets. The research provides fresh evidence of the contemporary accounting, reporting and investment practices of a religious institution entrusted to manage *waqf* funds operating in an emerging market.

Keywords: *Waqf;* Usufructs; Accounting; Reporting; Investments; Accountability

Introduction

The emergence of social economy as an alternative to capitalistic economy has attracted the academic interests of many contemporary scholars. Its social constructs are argued to have imbued and embedded with ethical and moral elements (Naqvi, 1981) and its objectives are closely aligned to Islamic economics. Economically, Islam demands that wealth is to be shared and circulated through various mechanisms based on justice and equity as outlined in the Qur'an and Ahadith (sayings of Prophet Muhammad) (Chapra, 1992). The mechanisms include *waqf* (Islamic endowments) and charities which are important elements in the social economy as they provide public goods such as education and healthcare (Khan, 1994), provision of religious premises and utilities, jobs opportunities and public library without any cost to the government (Yedyyildiz, 1996). Historical records in the Muslim world indicate that *waqf* is a self-sustainable socio-economic

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device (Cizakca, 1998; Nasution, 2002) and it provides solutions to many social and economic problems such as poverty alleviation (Hoexter, 1998; Sadeq, 2002; Hasan, 2014) and capital financing (Cizakca, 1998).

Although these sectors are heavily regulated in developed countries such as the United Kingdom, United State and Singapore, many Islamic countries only have rudimentary legislative and governance framework to ensure the sustainability and proper management of the entities. The Charity Commission in the UK for example provides extensive guidelines (please see SORP, 2000 and 2005) which regulate all charities in the UK and Wales. Extant literature on endowments, non-profits, charities and religious organizations (e.g. church and mosque) noticeably covers aspects on administration, management, accounting, financial management and reporting and especially accountability of the managers (Cordery, Baskerville and Porter, 2011; Dhanani, 2009; Hooper *et al.*, 2008; Hyndman, 1990; Hyndman and McDonnell, 2009; Jacobs, 2005; Jacobs and Walker, 2004; Laughlin, 1988; Lightbody, 1999; Yasmin *et al.*, 2014). These studies are however concentrated on samples drawn from advanced economies where the entities operate, systematically contributing to the lack of understanding and analytical avenue which could improve these important institutions in the emerging economies, particularly in Muslim dominated countries.

For Muslims, adherence to the principles of Islam is a must. The central tenet in Islam is the tawheed (unity of god) (Bilal, 1994) which demands for Muslims to believe in one and only God–Allah, who creates human and subsequently appoints them as His vicegerent (khalifah) on earth to take care (i.e. trustee) of the bounties void of transgression (Sulaiman, 2003; Abdul-Rahim, 1998). Accordingly, wealth in terms of resources are to be managed with responsibility which human should not evade nor violate and they are accountable for all of their (in)actions (Abdul-Rahim and Goddard, 1998; Kamla, Gallhofer and Haslam, 2006; Nahar and Yaacob, 2011). Such accountability is termed taklif which is based on dual accountability (Nahar and Yaacob, 2011) covering the accountability to the Creator (Allah) and accountability towards fellow human, nature and environment (Kamla et al., 2006).

Framing this research based on the above concept of taklif on *waqf* within the Islamic economics domain, this paper seeks to analyze and examine *waqf* accounting, reporting and investment practices in a selected SRI in Malaysia. It takes a case of a SRI-W which name is kept anonymous due to the sensitive nature of the data and the institution. The research analyzes and examines relevant documents on SRI-W’s accounting, reporting and investments practices. A simple performance measurement calculation using return on *waqf* assets (ROWA) as a proxy to measure SRI-W’s accountability was also carried out. It then compares the Statement of Recommended Practice (SORP 2005) issued by the Charity Commission, United Kingdom with the existing SRI-W’s financial management and accounting policies, procedures and practices to explore for any improvement void. Finally, the paper further recommends accounting and reporting template relevant to improving SRI-W’s accountability. The paper believes that a proper accounting and reporting oversight model for *waqf* can be based on SORP 2005, appropriately modified to comply with the Shari’ah requirements.

The paper proceeds as follows. Next section reviews *waqf* and its practices in Malaysia, followed by a review of prior research in *waqf* accounting and reporting. The research method employed in this study is then described where the use of case study is appropriately explained. The empirical findings on accounting, reporting and investments practices obtained from the case study conducted are then presented. Final section concludes the paper.

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Waqf and its Practices in Malaysia

Waqf possesses unstandardized definition in the literature as the term itself is not specifically stated in the Quran (Zain, 1971). Islamic jurists however infer and explain *waqf* based on related Quranic verses and Ahadith. Extant literature literally defines *waqf* as confinement and prohibition (Hassan, 1984; Hashmi, 1984), denoting the restriction imposed on asset's usage and ownership upon its conversion into *waqf* status. There are four common types of *waqf* namely *waqf* khayri (general *waqf*), *waqf* khas (specific *waqf*), *waqf* ahli (private *waqf*) and cash *waqf* (Yaacob, 2013).

Waqf practices and hence its institutions began more than eight hundred years ago in Malaysia (Syed–Othman, 1986). It started when the Arab Muslim traders brought Islam to the peninsular land in the tenth century. Religious education is the main factor of *waqf* being developed in the country, especially in the state of Terengganu. This is evidenced by one of the early nineteenth century *waqf* deeds by Sultan Umar (the state ruler), stating the objective of his *waqf* is to promote education and the dissemination of knowledge to the public (Mahmood, 2000). During the earlier period, Muslims who wished to donate or convert their property into *waqf* would verbally appoint the village head or 'Penghulu' as the asset's trustee (Yaacob, 2013). In the absence of proper written records, problems arise when the 'Penghulu' passed away and is replaced by another person. The deceased's descendants in many cases did not declare the *waqf* property and subsequently used them as their private property (Baharuddin, 1998; Yaacob, 2013). The practice of *waqf* with proper documentation is rare pre 19th century except for the mosque building famously known as the Masjid Kapitan Kling (in 1801) and a building donated by the member of the Aceh royalty in Penang (Nasution, 2002).

Currently, *waqf* is managed by the respective State Religious Councils (SRCs) as the Federal Constitution of Malaysia provides that all Islamic matters are under the State's purview (Nahar and Yaacob, 2011). Noticeably, *waqf* practices have long been neglected and nearly forgotten by the Malaysian Muslim community compared to the other Islamic institutions such as *zakat* (Islamic tax) (Abdul–Rahim *et al.*, 1999; Baharuddin, 1998; Mahmood, 1998). Extant Malaysian *waqf* literature indicates various operational weaknesses ranging from lack of documentation to accountability among SRCs being the *waqf* manager (Nahar and Yaacob, 2011).

Waqf Accounting and Reporting: Previous Research

Many past studies on waqf mainly concentrated on its management and operational aspects (Deguilhem, 2003) and waqf property development and improvement (Hasanuddin, 1998; Mustapha, 1987). Research on waqf accounting, reporting and investments are however noticeably sparse with only limited literature available focusing on Algeria (e.g. Hoexter, 1998), Malaysia (Yaacob et al., 2015), North Africa (e.g. Shatzmiller, 1991), Singapore (e.g. Nahar and Yaacob, 2011) and Turkey (e.g. Toraman et al., 2007).

A study by Siti–Rokyah (2004) investigates *waqf* financial management and reporting practices of fourteen SRIs in Malaysia. The research finds large vacuum in the transparency continuum including timely preparation of annual reports and inadequate disclosure. Majority of the SRIs are found to have taken more than three years to complete an annual report without being penalized. This corroborates earlier findings indicating lack of competent managers and technical personnel working with unclear objectives and functions (Mohd–Yusop, 1999). Arguably, the lack of regulatory enforcement systematically provides incentives for SRIs to deemphasize the importance of providing timely and transparent financial accounting and reporting. In addition, majority of the SRIs did not also maintain a separate fixed assets register for *waqf* account, an observation that

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is consistent with that of Abdul–Rahim et al. (1999). The SRIs are further noted for not providing any allowances for depreciation on their non-current assets.

The above findings are consistent with results obtained by Zietlow's (1989) which was based on pure religious non-profit organizations in the United States, whereby only five percent of the agencies have five-year financial planning. Evidence indicating lack of financial management skills is also gathered by Siti–Alawiyah (2004). Interestingly, Yaacob et al. (2015) found that the *waqf* manager that they examined employs only two staff but is able to successfully manage hundreds of millions of dollar worth of *waqf* assets and investments with the assistance of proper technology in its administration and financial management, accounting and reporting. A complete *waqf* assets register is available upon request by stakeholders whilst the financial statements are also available online.

The success story on *waqf* practices in Algeria was studied by Hoexter (1998) covering the period from the late 1700s to 1830. The research found that the preservation of *waqf* assets (guarding them from dilapidation or usurpation) had ensured continuous distribution of *waqf* income. The founder prioritized repairs over any other expenditure and that anything endangering *waqf* asset's continuous presence was ruled out, i.e. selling, mortgage, letting for a permanent/ long period were forbidden (only one year for urban and three years for rural). Strict follow up and efficient control of payments due by tenants and good work in maintaining and restoring of *waqf* assets under their control are obvious. Reference to the registers shows the purchase of materials for maintenance, and the *waqf* administrator even kept stocks (inventory) for repair purposes.

Historical review of *waqf* accounting is provided by Toraman et al. (2007) whose study was based on cash *waqf* during the Ottoman era. The study found that cash waqf transactions in Turkey circa 15th and 16th century were recorded using single entry accounting system and specific registers are also kept for waqf funds and payables. Similar documentary evidence was also found by Shatzmiller (1991) which examined waqf khayri in the 14th century in Fez, North Africa. The study documents systematic accounting records of income and expenditures of various *waqf* properties providing diverse public goods including 'hammam' (public bath house), 'madrasa' (schools), public kitchen and books for public library. These results are potentially useful in guiding the accounting and reporting practices of contemporary waqf managers, thereby effectively discharging their accountability to waqf stakeholders.

Methodology

This study aims at investigating current *waqf* accounting, reporting and investments practices of a selected SRI-W. It relied on verbal (interview) input, documents analysis and non-participant observation as these methods allow exploration of the organization and actors within their social context (Baxter and Jack, 2008; Firestone, 1987; Yin, 1994). Triangulation is applied to increase the reliability of the data and evidence collected (Moore, 2000; O'Leary, 2004). Accordingly, this present research adopts the qualitative approach whereby a case study method is utilized. Given the exploratory nature of this research, a single case study method is argued to be the best method to achieve the research objective (Cooper and Shindler, 2003; Maxwell, 1996; Travers, 2001; Baxter and Jack, 2008; Gillham, 2000). In addition, in view of the nearly restricted nature of access to the organization, single case study method remains the best option as the selected sample provide maximum access to the research site and documents. Case study approach is being utilized in prior research on accountability in organizations (e.g. Hodge, 2012).

SRI-W is chosen given its status as the most advanced SRI in Malaysia (Zainal–Abidin, 1999). The respondents (personnel of SRI-W)

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are identified and segregated into three groups. The first group consists of personnel in the *waqf* unit of the General Resources Department. The second group comes from the Investment and Development Division, who are responsible for the investments and development of SRI-W's properties including *waqf* properties. The third group is the finance and administration personnel who handle matters related to the *waqf* financial management and accounting. These three groups are selected because they are the primary individuals directly involved with the preparation of *waqf* accounts, reporting and administration of *waqf* assets and investments.

Results and Discussion

Based on its organizational structure, the SRI-W's Management Services Division handles the overall financial and reporting aspects of the institution. The division is headed by a Chief Assistant Director (CAD) and assisted by three accountants with assistants and support staff respectively. The Director of State Religious Department is automatically appointed as the Secretary of SRI-W.

Administration and Management

The administration and management of *waqf* fall under the sub-unit of *Baitulmal* Affairs within the General Resources Unit (GRU), which is headed by an Assistant Director (AD) with two support staff (clerical level). The AD reports to the Council's CAD who is under the State Islamic Department. During the interview, the CAD and AD confirmed the lack of skilled human resources to handle the administration and management of *waqf* property that has hindered effective management of *waqf* assets. The AD further described (from his perspective) a skilled person as:

> *"A person with adequate knowledge of administration and management especially in the shari'ah and operations"*

Apart from constraint on the availability of skilled human resources, both CAD and AD also highlighted the lack of financial resources to develop *waqf* properties. They argued that the lack of human resources and financial resources dampens the effective management and much needed improvement of *waqf* properties especially landed properties. He further acknowledged unnecessary bureaucratic processes plaguing *waqf* management particularly on the process of transferring the land title at the Land Office if the land area is too small.

Financial Regulations and Policies

The main guidelines come from the 'Shari'ah Administration Enactments 195X' (*The "X" used throughout this paper is meant to maintain anonymity of SRI–W), 'Baitulmal Procedures (XX) (Expenditures and Application) (replacement)' 198X, section 2(b) which reads:

> *"replacement of sub section 3(a), No money or resources in the Consolidated Funds may be used for the purposes stated in Section 3 and 4 unless with the prior approval of the committee"*

Section 3(b) stipulates that all approval by the committee must be reported to the Council and Section 3(c) states that the Council from time to time may give its orders which must be executed by the committee. These amendments were approved by the Cabinet on November 11, 198X and enforceable since May 9, 198X. Other guidelines such as Treasury Instruction, Circular Instruction and the Financial Reporting Standards by the Malaysian Accounting Standard Board are also applicable to SRI-W in recording and reporting its *waqf* transactions.

***Waqf* Accounts**

Computerized accounting system named 'Sistem Kewangan dan Akaun MXXXX' (MXXXX Financial and Accounting System) was developed internally by SRI-W since 200X to cater for the recording and reporting accounting transactions for *waqf*. All *waqf*

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money is consolidated in a fund called the *Waqf* Amanah (Trust) Fund which recording of transactions is based on the accrual basis. Analysis done on SRI-W financial statement reveals the merging of financial statements between *waqf* khayri (*waqf* general) and *waqf* khas (*waqf* specific) accounts. Such non-separation triggers critical Shari'ah issue as any income or resources of *waqf* khas are only applicable to specific *waqf* and could not be mixed with other *waqf*. Observably, all *waqf* transactions are debited or credited to this account. The expenses and income will be shown in the financial statement under the General Resources unit. *Waqf* transactions are traceable up to the trial balance date. Table 1 below shows the trial balance for the *waqf* fund:

Table 1: *Waqf* fund Trial Balance as at June 7, 200X (Source: SRI-W's Ledger, 200X)

No	Particular	Classification Code	Debit (RM)	Credit (RM)
1	Building maintenance	5	4,099	
2	Building insurance	5	375	
3	Bank commission	5	1.50	
4	Accrued rental Income	1	13,300	
5	Rental deposit	3		5,000
6	Utilities deposit	3		988.50
7	Prepayment	3		400
8	House rental income	6		24,600
9	Land rental income	6		9,000
10	Retained earning	7		89,457
11	Cash at bank	1	111,669	
			129,444.50	129,444.50

The classification code used reflects the nature of account i.e. assets, liabilities, equity (reserve) revenue or expenses. *Waqf* transactions appeared mainly on rental deposits and income as well as expenses on *waqf* assets such as maintenance and insurance. Interestingly, a retained earning account is also maintained for *waqf* funds and there is also a specific bank account for *waqf* transactions. Intriguingly, *waqf* assets were not accounted for in view that there is no assets valuation exercise been carried out and therefore, it was not capitalized.

Accounting, Reporting and Investment of Waqf Assets

In SRI-W, the GRU is entrusted to maintain *waqf* assets register. Analysis on such register reveals that the list does not contain assets value, which item is also unavailable in SRI-W's audited annual report for the same year. This is perplexing despite the fact that the Department of Valuation and Property Services (JPPH) (a federal government agency) provides free asset valuation to all government agencies including SRI-W. The analysis further reveals administrative errors leading to different values being reported for two *waqf* assets which the AD explained was attributed to the assets were miscounted and relevant files were misplaced.

In terms of investment, it was discovered that only properties under *waqf khayri* are subject to the investment exercise. Properties under *waqf khas* are excluded as its development and usage mode are pre-defined by the *waqif* (person donating the assets). All *waqf* properties are controlled and monitored by the Investment and Development Division (IDD) under the State Islamic Department. The IDD is headed by a CAD assisted by three ADs and an engineer. Fifteen other support staffs are also employed at clerical level. The IDD manages *waqf* properties which include rented houses, buildings and lands.

Waqf Usufructs

The investment returns on *waqf* properties are termed as *waqf* usufructs, which, in the case of SRI-W, would be the rental income. Analysis done on the available records reveals weaknesses in the SRI-W credit control exercise as it did not receive hundred percent of the total rental income every month as rental payments were not made promptly by some tenants. The highest rental income collected for any given month is around 80% out of the total collectible

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amount. Three tenants we identified to have more than three to six months of rental arrears amounting to approximately RM13,300. The AD explains:

"In GRU, we only have two personnel to handle various tasks including faraidh (inheritance) and fidyah (compound). This effectively constraint our effectiveness in ensuring prompt rental payment"

Table 2: *Waqf* Investment Rental Income (Source: SRI-W's Ledger, 200X)

Property No	Yearly Rental	Latest Asset Value (RM)	Valuation Year	Return on *Waqf* Asset (ROWA)
1	4,800	100,000	-	4.8%
2	4,800	100,000	-	4.8%
3	4,800	100,000	-	4.8%
4	4,200	77,606	2000	5.4%
5	6,000	133,000	2000	4.5%
6	7,200	-	-	-
7	6,000	84,000	1993	7.1%
8	5,400	120,000	1993	4.5%
9	12,000	114,000	1992	10.5%
10	5,940	40,000	1992	14.9%
11	120,000	27,728,925	1996	0.43%
12	9,600	240,000	2000	4%

The above finding confirms the disparity in management efficiency discovered by Hoexter (1998) based on *waqf* practices in Algeria whereby the administrator of *waqf al haramayn* exercised tight follow-up of rental collection on *waqf* properties. A simple calculation of Return on *Waqf* Asset (ROWA) is performed and the results are tabulated in Table 2 above.

In terms of disbursement, investigation reveals that the usufructs were only disbursed for two purposes of building maintenance and building insurance, leaving a huge accumulated cash reserve in excess of one hundred thousand. Upon inquiry, the AD explains:

"We decided to utilize the usufructs only on expenses related to the waqf assets. The accumulated usufructs funds are however not sufficiently large enough for us to undertake big scale improvement projects on waqf assets under our management"

Recommendations

Drawing from findings presented above, relevant recommendations are outlined below. These are based on SORP 2005 currently applied by charity organizations in the UK.

Waqf Accounting and Reporting

Ideally, separate financial statements should be prepared to cater for the unique operationalization of *waqf* as opposed to the current practice of consolidating the financial results with those of zakat. It should contain a Statement of *Waqf* Activities (SOWA) and a Statement of Financial Position (SOFP) with comprehensive notes to the accounts. The SOWA should also be further divided into two types, catering for the different *waqf* types of khas and khayri. It could be named as The Statement of *Waqf* Khayri Activities (SOWKA) and The Statement of *Waqf* Khas Activities (SOWsA) to replace the existing profit and loss account. All respective *waqf* income and expenditure should be credited or debited respectively to these statements. Any excess (or deficit) should then be transferred to the SOFP as retained reserves. The reserve should be maintained at an ideal/optimum size depending on economic circumstances faced by SRI-W. This is important in view that the objective of *waqf* is more towards the enhancement of socio-economic conditions of the ummah by way of disbursing the usufructs rather than accumulation and retention of resources i.e. *waqf* assets and usufructs. Samples of SOWA and SOFP based on the available SRI-W's *waqf* trial balance are given below:

Income		
Land rental	24,600	
Building	9,000	
		33,600
Less: expenses/distribution		
Building maintenance	4,099	
Insurance on building	375	
Bank charges	1.50	
		(4,476)
Excess *Waqf* Fund		29,124

Figure 1: Statement of Waqf Activities (SOWA) as at June 7, 200X

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Reporting discipline should also be enhanced by observing the reporting timeframe. The accounts should be transparently and timely reported and appropriately audited in order to ensure that SRI-W's accountability towards *waqifs* and other stakeholders are upheld.

Current Asset		
Cash at bank	111,669	
Accrued rental income	13,300	124,969
Less: Current Liabilities		
Rental deposit	5,000	
Utilities deposit	988	
Prepayment	400	(6,388)
Net Assets		118,580
Financed By:		
Accumulated Cash Reserves	89,457	
Excess *Waqf* Fund for the period	29,123	
		118,580

Figure 2: ***Waqf* Statement of Financial Position as at June 7, 200X**

Accounting and Reporting of Waqf Assets

SORP 2005 recommends that charity (functional) non-current assets be recorded in the charity organization's SOFP. It has to be duly depreciated according to asset's useful economic life and the expenditure recognized in the income statement annually. However, an exception is made to this rule, when the asset is freehold land or maybe leasehold, as in some cases of *waqf* landed properties held. In this case, no depreciation is applicable because the assets have a very long useful life. Another exception is on heritage *waqf* assets which example includes old Mosques or buildings. These assets are highly specialized and rarely tradable in an open market and thus, its valuation might be problematic. Other heritage *waqf* assets that are not included in the SOFP should ideally be disclosed as notes to the accounts, detailing all the necessary information to enable public access of the information for greater accountability.

Waqf Investments

In quest of maximizing investment returns, a mixed panel or committee for *waqf* investments should ideally be formed which includes not only the SRI-W's council members who are Islamic scholars, but also experts in other critical areas such as finance and economics. The committee should provide effective oversight over critical investment areas especially risks management. Adequate and reasonable returns should also be targeted for *waqf* investment in view that the usufructs will be subsequently channeled to economic activities that will benefit the Muslim *ummah*, apart from ensuring the sustainability of the *waqf* assets by way of financing the maintenance and upkeep expenses.

Conclusion

This research explored the contemporary *waqf* accounting, reporting and investment practices of a selected *waqf* manager in Malaysia–The SRI-W. A qualitative approach to research inquiry using a single case study method was adopted and the results of documentary reviews and interviews point to observable weaknesses in the accounting, reporting and investment for *waqf* activities particularly on *waqf* assets. The available records and interviews with relevant personnel suggest large improvement void in those critical areas. However, the weaknesses are noted to provide little adverse effect on SRI-W's ability of adequately safeguarding the *waqf* assets. The importance of proper accounting, transparent reporting and effective management of *waqf* investment assets lies on the simple reasoning of the need for generating *waqf* growth and stability for the benefit of the Muslim *ummah*. This exploratory study filled the vacuum in the present *waqf* literature specifically on *waqf* financial reporting and *waqf* investment assets. It highlighted critical areas which other SRIs in Malaysia could reflect upon and plan appropriate strategies to overcome the weaknesses if any. Future research on *waqf* could look at the financing dimension which remains a stumbling block for *waqf* assets development.

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Suggestions in the literature on using *waqf* assets to back the issuance of *sukuk* (Islamic bond) in order to raise cash for *waqf* assets development could be further investigated. This is in addition to the cash *waqf* scheme which several SRIs have already introduced. New innovations particularly on strategic financial engineering is critically needed to provide the much needed funds in empowering the role of *waqf* in strengthening the Muslim *ummah*'s economy.

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