

**WAQF ACCOUNTING DEVELOPMENT FOR GREATER TRANSPARENCY  
AND ACCOUNTABILITY OF WAQF INSTITUTIONS**

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**ABSTRACT**

The revival of waqf institutions brings attention to the needs for accounting for waqf. Waqf can be referred to a charitable endowment that comes from an Arabic term and has no equivalent word in English. The purpose of waqf is to provide ‘recurring charity’ that benefit income flow to the needy continuously. Waqf Accounting is significant tool that may improve transparency and 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. This paper attempts to demonstrate the needs for the development of accounting standards and Statement of Recommended Practice for Charity (SORP) and AAOIFI (Accounting and Auditing of Islamic Financial Institutions) as a backbone for the framework. Thus, it is suggested that accounting is very useful means to discharge mutawalli’s accountability in waqf administration and management.

*Keywords: waqf, accounting for waqf, transparency, accountability, mutawalli.*

## **Introduction to Waqf**

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 the socio-economics of ummah like building, commercial projects such as business centers and social projects such as orphanage, caring centres and many others which it is not against the shari'ah or Islamic law.

As reported by Muslim from Abu Hurairah r.a. that Prophet (P.B.U.H.) said that "when a son of Adam dies, so does their deeds except for three things: lam giving or benefited knowledge or pious son who pray for them". The Holy Al-Quaran in verse 2:261 Allah S.W.T. 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 seed and remember Allah will give increase manifold to which he will and Allah is All Embracing and All Knowing". Both supportive evidence and rewards to giver encourage Muslims commit to waqf.

There are two types of waqf. Firstly, Family Waqf (Waqf Ahli) which means that it is for immediate family members that include children, grandchildren etc. Secondly, charitable waqf (waqf khairi) that designated for charity purpose that can be classified into two sub categories; namely general and special. For General Waqf Khairi, the wealth can be used as stated by the giver for any legal activity that benefits the community. For instance, when a person endowed a piece of land for charity. The endowment ownership which is known as Nazir Waqf has to govern the land in any form of development that could

provide benefits to the community without any ties to the types of charity or in the form of development itself. While the benefits could be given to the community in any form of charity, so that the ownership will continuously gain rewards. Whereas Special Waqf Khairi is a wealth specified by giver to be used for specific purpose and function. For instance, land for mosque, school, university, house, business centers etc.

Finally, one would see that the waqf practice among Muslims are very significant as it could benefit many people especially to the needy. The conception of reward to the waqf giver in getting blessing in this world or even in the Hereafter encourage them to inculcate the practice of waqf as per command in Islam. Therefore, to satisfy the giver of waqf assets, roles of mutawalli as the trustee of waqf asset is very important to discharge the accountability in administration and management of waqf institution. For that reason, it triggers the interest of this study to examine the relevance of accounting standard for waqf as a device to enhance greater transparency and accountability of mutawalli, particularly waqf institutions.

### **Development of Accounting Practice for Waqf**

During the Ottoman Empire, accounting in waqf institutions had been extensively practiced in managing waqf institutions. Yayla (2007) discovered some evidence on 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, Yayla 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 mutawalli, it is an appropriate way that could prevent the misuse of waqf asset.

Similarly, Toruman et. al. (2007) examined the accounting practice on waqf. They discovered the fact that from 1490 to 1928 accounting practice on waqf had been carried out using single entry in nature. However, the records showed that all information pertaining 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.

Looking at the current practice on accounting for waqf, the answer is inconsistent practice and vary report on waqf. Different waqf institution has its own accounting practice. Eventually, in Malaysia, this issue had been highlighted. Abdul Rahim et. al. (1999) investigated the accounting system used and administration practiced by State Islamic Religious Council (SIRC) in Malaysia. The telephone interviews with the officers of selected SIRC in Malaysia was conducted. They found that there had lack of accounting system for waqf assets, no detailed information about the waqf assets and unsystematic management of the assets. In fact, there was no written procedure of recording financial transaction relating to waqf assets. This study inferred that due to the lack of coordination on waqf institutions by federal authority in Malaysia, this phenomenon are being occurred. Indeed, Abdul Rahim et. al. (1999) suggest that the establishment of waqf department which will coordinate waqf in Malaysia for the betterment of the waqf management. In addition to that, the accounting procedures also should be improved to ensure internal control of waqf administration and management in Malaysia.

Siti Rokyah (2005) expanded the previous study by examining the financial reports to look at 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 involved directly 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. Sadly, even the study had carried out in 2004, the latest annual reports produced by SIRC were majority for the year 2000 and 2001 whereas the rest vary from 1994 to 1997.

This study reveals that the status of producing annual report of SIRC's vary as majority of them had overdue and outdated annual reports. It showed that SIRC's had low level of disclosure in their annual report. Some of SIRC's reported higher level of disclosure as they have qualified accounting staff. They produced the latest annual report compared to the SIRC's which showed low level of waqf disclosure and outdated annual reports. The main limitation of Siti Rokyah's (2005) study also because majority of SIRC's did not provide separate account for waqf. For that reason, no information relating to waqf matters could not be found. In addition to that, that there was no guideline in preparing and maintaing waqf report. She suggests to have specific guideline of manual to maintain waqf assets and waqf reporting besides hiring of experienced accountants to ensure they are able to maintain waqf accounting and reporting properly.

In 2006, Hisham conducted case study on accounting for waqf practice in State Islamic Religious Council (SIRC) in Malaysia. He examined the waqf administrative and management on accounting practice by comparing accounting practice in Malaysian Federal Territory SIRC with Statement of Recomendnded Practices for Charitable (SORP, 2005) in the UK. Hisham carried out his study using the combination of methodology such as interviews, observations and document review. Interestingly, he discovered that there was some improvement of waqf accounting in terms of bookkeeping at Federal Territory SIRC. But, there was no independent financial statement for waqf and no separation between different types of waqf was made. Hisham therefore, recomendated 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.

### **Accountability of Mutawalli**

Many scholars or even practitioners claim that the phenomenon of dissimilarity of waqf accounting practices is due to the absence of accounting standards and code of good corporate governance for waqf. Ihsan (2007) suggested to set up 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 (2007) whereby he reveals that it is necessary to learn the existing similar standard such as Statement of Recommended Practices for Charitable (SORP) 2005 for charity. Both of them agreed that the structure of SORP, 2005 is sophisticated and could encourages the trustee of charity (mutawalli) to be more accountable. Thus, developing the accounting standards for waqf is based on SORP model with some modification so that they are in line with Shari'ah (Islamic law). Alternatively, as far as Islamic institution is concerned 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 (Hisham, 2006; Ihsan, 2007 and Shahul, 2007) are supported by many scholars. Lewis (2006) 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 (1992) 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 very essential as a basis of performance measurement, evaluation and reporting (Cutt and Murray, 2000). Nevertheless, the understanding of accountability by mutawalli could be different which caused to the phenomenon of dissimilarity of waqf accounting and reporting. Sinclair (1995) claimed that if there is no clear consensus about accountability, the means to deliver it will vary. This issue call for study to assert what accountability in waqf like study done by Ihsan, 2007. He explored the major themes that constitute the basis of the accountability for waqf so that the types of information should be provided by mutawalli to various stakeholders are clearly defined. A Mithchell, Agle and Wood (MAW) model, 1997 was suggested in this study to explain the nature of waqf stakeholders.

The previous discussions give an insight that the construction of accountability in waqf institutions is very important, specifically the mutawalli's accountability. As waqf is a charitable and non-profit in nature as well as religious concerned, the basis of reporting and performance measurement is very crucial even subjective to define accountability. Haniffa (2001) views 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 of the Holy Quran, 2:284: "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 (Haniffa, 2001).

Due to the nature of waqf as a charitable matter for social benefits, the idea of Cordery and Morley (2005) could be appropriate whom suggested the charity accountability model has specific characteristics unlike business entity. Sinclair (1995) 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 (2000) 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. Al-Safi (1992) 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 Judgement.

Shahul (2000) indicates that the Islamic accountability is the most appropriate for waqf because the nature of waqf is based on the religious motivation and for the maslahah of ummah (public interest). Indeed, this paper summarises the accountability of mutawalli also is a dual accountability; as Allah's khalifah (vicegerent) all human beings are being

accountable for all resources entrusted to them as well as fulfilling any contract made between them.

In the context of accountability of waqf, a clear reporting from mutawalli will enable the interested users or stakeholders such as potential givers of waqf, NGOs, politicians, business community, academicians and Islamic Financial Institutions to ensure that the management of waqf assets is in line with Shari'ah law. Thus, Cajee (2007) recommended both shari'ah advisory board and shari'ah 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 practice. Then, mutawallis should provide report to waqif, waqf board, beneficiaries and community.

Furthermore, relating to the information should be provided by mutawalli in annual report, it should be clearly defined to avoid dissimilarity practice in reporting. Cordery and Morley (2006) indicates that the identification of stakeholder's interest will assist mutawalli to provide relevant information to them. This conception could be useful to determine the types of information to be disclosed in waqf reporting. Nevertheless, in the context of accountability, it is more wider scope than accounting. Thus, to discharge accountability purpose both quantitative and qualitative of reporting should be considered. Quantitative reporting is concerned on the financial performance of waqf institution on how much is the acquiring of 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 inform the users whether objectives are achieved and how is the progress of waqf programs.

As waqf has some similarities with charitable organisation cited by Hayes in Cordery and Morley, 2005, there are four types of accountability in charity bodies; Fiscal Accountability – to make sure that the money has been spent as agreed and according to the appropriate rules, Process Accountability – to ensure that proper procedures has been followed to provide value for money, Program Accountability – to ensure that institution is effective in achieving its objective and finally Accountability for Priorities – to fulfill

the needs of users appropriately. Since the types of information needs by stakeholders to satisfy them and accountability of mutawalli have been clearly identified, finally this could assist waqf institution to discharge accountability of mutawalli.

### **Roles of Federal Government to Enhance Transparency and Accountability of Waqf Institutions**

The Honorable Dato' Seri Abdullah Ahmad Badawi the Former of Prime Minister of Malaysia in the Ninth Malaysia Plannings, Pages: 39 – 40, cited that "In addition, steps will be taken to enhance the capital resources of bumiputra, like land and awqaf assets under the management of the State Islamic Religious Councils (SIRC). These State Religious Councils should fulfill Fardhu Kifayah obligation and play an active role in the economic development of the muslim ummah and help in the development of human capital."

As a result, Ministry of Prime Minister Department established Department of Awqaf, Zakat and Hajj (Jabatan Waqaf, Zakat dan Haji or synonym as JAWHAR) was set up in 2004 with the objectives of improving the management of Muslim wealth in the forms of awqaf, zakat, mal and hajj. 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 roles at Federal level is very important to ensure the management and administration of awqaf properties is in order, systematic and effective (Hisham, 2006 and Shahul, 2007). The effectiveness of service delivery system towards an excellent level by reinforcing the awqaf institutions.

JAWHAR also aims to improve accountability of waqf institutions. Planning, coordination and implementation of policies and development programs of awqaf institutions particularly the State Islamic Religious Council (SIRC) and effectively monitored for the progressive development of ummah. Yet, the important tool to achieve the objective of JAWHAR is reporting as a tool to measure the performance and indeed

accounting for waqf also must be set up as guidelines and it must 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) so does to Malaysian Accounting Standard Board (MASB) could adopt them. If the waqf institutions could enhance its transparency and accountability, this could bring together waqf Institutions along with the economic growth in Malaysia by promoting and strengthening the institutions. Perhaps, the development of waqf investments according to a set of criteria and laying down specific guidelines could assure the stability of waqf institutions.

In addition to that, another way to enhance the accountability of waqf institution is to establish a Professional Code of Conduct and a Code of Ethics for Mutawallis/Trustees, Management and other full time and volunteer workers of the waqf financial industry including Malaysian Institute of Corporate Governance (MICG ) roles for the Boards as well as an accreditation authority to enforce such professional codes. A Shari'ah Advisory Council also must be established to provide Waqf Institutions with the necessary expertise on Shari'ah compliance and related issues. Consequently, it could assist to built capacity in the region for local Waqf Institutions and finally government, particularly JAWHAR could open dialogue with Malaysian Institute of Accountants (MIA) in order to facilitate systems and enabling legislation for the creation and regulation of waqf to develop the accounting standard for waqf.

## **Conclusion**

This paper demonstrates the issue of waqf accounting to discharge the accountability of mutawalli. It is believed that accounting could improve the best practice in waqf institutions. The absence of accounting standards for waqf is the main reason of dissimilarity of waqf accounting practice, besides no clear definition on accountability. An Islamic dual accountability is the most suitable element to elaborate the accountability in waqf institutions. Accountability and mutawalli cannot be separated as mutawalli should discharge his accountability to various stakeholders like waqif, waqf board, NGOs and beneficiaries. Quantitative and qualitative of report should be disclosed to satisfy the needs of various stakeholders. Accounting provides the financial matters of disclosures, thus accounting standard is necessary to overcome the dissimilarity of accounting practice for waqf. The roles of government especially at Federal level should be played to reinforce the waqf institutions.

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