Accounting Disclosure By Waqf Entities: A Descriptives Study

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ABSTRACT

The purpose of this study is to examine the level of disclosure implied by waqf institutions in Malaysia. It intends to seek evidence on the accounting disclosure through waqf institutions’ annual report according to Standard of Recommended Practice (SORP). Annual reports were collected from public and corporate waqf institutions in Malaysia, and analysed thoroughly. The approach used for this research is a descriptive study through content analysis of qualitative method. The findings show mix results on accounting disclosures of waqf institutions with variations on high, moderate and low level of disclosures. The research is expected to contribute to the improvement of disclosures by waqf institutions, especially in Malaysia for the benefits of Muslim community as whole.

Key words: Waqf, Annual Report, Institution

1.0 INTRODUCTION

The main purpose of the research is to assess the level of waqf disclosure among waqf institutions in Malaysia and to examine whether the disclosure provided meet the criteria outlined by recommended practice.

1.1 Background of Study

The word waqf comes from Arabic word (waqafa) which means detention, to prevent or to restrain (Mahamood and Ab Rahman, 2015). There are many definitions of waqf from various perspectives. Waqf can also be defined as holding the money for the social purposes where it is performed to empower the needy in the society as well as promoting the philanthropy activity (Ihsan and Ibrahim, 2011). Other than that, from the view of Shafi’i jurist (Al-Raml, 1984), waqf implies maintenance of asset that can be used and the physical form of an asset should be retained for the purpose grants to beneficiaries aligned with Islamic specific endowment. In more current definition, waqf is referred as a property, which is autonomous or independent of any disposition that could prompt the transfer of ownership and donate them to the waqf endowment beneficiaries (Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), 2010).

In Muslim world, the first religious waqf was believed to be the mosque of Quba in Medina created during the Prophet’s lifetime for religious purposes (Stibbard, Russell and Bromley, 2012). In Malaysia, the waqf institutions are contended to have begun more than eight hundred years back (Alhabsyi, 1986). It started when Muslim Arab merchants conveyed Islam to peninsular land around 10th century. One of the main reasons of waqf being developed in Malaysia is the religious education. For instance, Sultan Baginda Omar in his waqf deeds stated that object of his waqf
was to advanced education and spreading of information to the people in general (Mahmood, 2000).

During the early period of 19th century, there are no systematic written documents regarding waqf in Malaysia. The earliest accessible written records that are available were the waqf of Masjid Capitan Kling in 1801, and the waqf by an individual of the Acheh royalty in Penang (Nasution, 2002). Without a proper documentation, the information regarding waqf unable to be reported systematically to the authority.

As years go by, waqf disclosure has been paid more attention as there are established institutions that has the authority to handle waqf property. The information regarding waqf property shall be informed the authority to acknowledge them on how the property had been managed. Nowadays, waqf in Malaysia managed by State Islamic Religious Council (SIRC) as stated in the Federal Constitution of Malaysia that all Islamic matters under the jurisdiction of the state (Yaakob, 2013). Furthermore, Ministry of Prime Minister Department built up the Department of Awqaf, Zakat and Hajj (JAWHAR) in 2004 with the goals of enhancing the administration of Muslim riches in the types of endowment (awqaf), aim (zakat), treasury (mal) and pilgrim (hajj).

However, there are small numbers of registered companies and not-for-profit entities have been allowed to administer waqf autonomously. For example Johor Corporation Berhad which they established their own Waqf An-Nur Corporation (WANCorp) Berhad which builds facilities such as mosques, small mosques, clinics, hospitals and dialysis centers (Thaker and Hassanudin, 2015). Beyond public facilities, WANCorp also provides Dana Waqf Niaga in providing interest free loan to assist the small businesses.

Waqf plays considerable part in socio-educational, cultural and life-saving aspects of the Muslims. Majority of the jurists regard waqf as recommended benevolent act as it is based on the reason on contributing to righteous philanthropic causes, which is recommended by textual sources which are Al-Quran and As-Sunnah. Waqf in education is widely practiced as there are a lot of waqf benefits being used to build school, remunerations of teachers and providing scholarships to qualified students. Good education will help people to pursue their life better and enable them to gain knowledge as being emphasized in Islam.

In Malaysia, a lot of religious school (madrasahs) and school for memorizing the Al-Quran (Maahad Tahliz) was established using waqf contribution (Syed, 2010). This shows that waqf helps to strengthen the Islamic education in Malaysia. Another example also can be seen in Bangladesh and Pakistan where waqf has been used to finance numerous madrasahs and colleges there (Sadeq, 2002).

Waqf is intended to help the society as whole by sharing benefits derived from the waqf properties. Waqf, endowment, non-profit and charities are vital component in the social economy as they provide public benefits such as education and healthcare (Akram, 1994), provision of religious premises and utilities, job opportunities and public library without any cost to the government (Cizakca, and Yedyyildiz, 1998). This will lead to positive socio-economic environment.

Due to the importance of waqf in the society, it is crucial to ensure there are proper waqf management. Waqf disclosure and reporting needs to be meticulously managed by a responsible and knowledgeable person. Therefore, trustee (Mutawalli) is appointed in every waqf institution.
to handle the preparation, recording and documentation of waqf assets. Trustee also responsible to distribute the waqf property based on the intention of the waqif (people who endow money). For the disclosure of waqf, there are few available principles of disclosure that can be followed. Those are, Accounting and Auditing Organisation for Islamic Institutions (AAOIFI), Malaysian Private Entity Reporting Standard (MPERS) and Statement of Recommended Practice (SORP). These are the accounting principles and reporting that has been used by entities for recording waqf assets.

1.2 Problem Statement

Waqf are considered as voluntary charitable endowment of one's wealth for Muslim. There is minimal level of waqf disclosure as well as obsolete annual report of waqf institutions due to reason such as waqf institutions do not provide a separate account for waqf (Siti Rokyah, 2005). Besides, information related to waqf matter also could not be found. Referring to research paper conducted by Malaysian Accounting Standards Board (MASB) (2014), there are accounting issues about waqf. Among the issues is most states in Malaysia do not have the enactments relating to waqf to present a complete set of separate financial statements. This is contra with the Board of Directors suggestion that a specific waqf disclosure should be prepared and presented in a full set of separate financial statement. The issue mentioned previously lead to unstandardized recording and reporting for waqf among waqf institutions in Malaysia.

According to Hamdan, Ramli, Jall and Haris (2013) in managing funds of waqf, there is no systematic accounting system being applied. It is due to limited knowledge of the treasurer in preparing the waqf financial report. This factor is one of the main problems in waqf accounting as it is difficult to prepare proper waqf reporting based on accounting procedures and standard due to sufficient knowledgeable personnel.

Siti Rokyah (2005) also stressed out that the disclosures of the financial statement of waqf do not use an accurate and proper timely basis in the annual report. This delay is due to insufficient information and guideline in preparing waqf financial statement where the preparers faced difficulty to disclose the waqf and take longer time.

Basically there are three main standards introduced for waqf treatments to have a proper handling of waqf funds. These are Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), Malaysian Private Entities Reporting Standard (MPERS) and Statement of Recommended Practice (SORP).

The problems mentioned above are the problems faced by waqf institution in Malaysia. This research study will deal thoroughly with issues related to the level of waqf disclosure among waqf institution in Malaysia. The study will be taken into consideration any plans for improving the waqf disclosure by comparing the annual report of waqf institutions with the Statement of Recommended Practice (SORP).

1.3 Objective Of The Study

1.3.1 Research Questions

RQ 1: What is the level of waqf disclosure among waqf institutions in Malaysia?
RQ 2: Do the waqf institutions in Malaysia provide the disclosures that meet the suggested practices requirement by accounting bodies?

1.3.2 Research Objectives

RO 1: To examine the level of waqf disclosure made by waqf institutions in Malaysia.
RO 2: To investigate whether the waqf institutions in Malaysia provide the disclosures that meet the suggested practices requirement by accounting bodies.

1.4 Significance Of Study

The study will provide information about waqf disclosures among waqf institutions in Malaysia. Based on the study by Masruki and Shafii (2013), recording and reporting of waqf disclosure has been inconsistent.

2.0 LITERATURE REVIEW

According to the State Islamic Religious Councils (SIRC) of the Federal Territory, waqf is classified into two types which are general waqf (am) and specific waqf (khas). These definitions are extracted from the SIRC as follows: “Wakaf Am” means a Waqif (giver) carries property for the purpose of Islamic virtue solely without a specific purpose. “Wakaf Khas” means a Waqif carries his property for certain purposes such as building, mosques, and religious schools.

2.1 Waqf in Malaysia

Yayasan Wakaf Malaysia is the national waqf entity officially inaugurated by the Jabatan Wakaf, Zakat and Haji (JAWHAR) on 23rd July 2008. There are three types of representatives in Yayasan Wakaf Malaysia known as the corporate waqf, SIRC, and Baitulmal that govern waqf entities in Malaysia. Together, they are called waqf institutions. The entity responsible to manage and administer waqf funds from the community is SIRC which is based on the Islamic Shariah. The roles of SIRC are important as they are the entities that will be the middle person to distribute waqf gained from corporate entities. Waqf corporates classify their waqf funds into four subsidiaries which consist of waqf investing and waqf beneficiary. Waqf investing is the situation where the corporate business invests their money to generate their business income while waqf beneficiary is the individual (Nazir or Mutawalli) who receives waqf funds and will distribute them to the community. Some waqf institutions use self-designed waqf disclosure which shows that there is no proper standard to be followed.

2.1.1 Accounting Standard for Waqf

Accounting standard refers to the framework established to deal with specific financial accounting and reporting issues. The importance of having a standard for waqf reporting practice is to ensure waqf is properly recorded and accounted. Thus for waqf, there are three main standards introduced to account for waqf. They are AAOIFI, MPERS, and SORP.
2.1.2 Statement of Recommended Practice (SORP)

SORP was developed by Charity Commission under the authorisation of Accounting Standard Board (ASB). SORP is a framework for accounting and reporting practice of charities in England and Wales.

2.1.3 Standard Selected – SORP

SORP could be a good model for comparison because the nature of waqf is slightly similar to charity, even though they are not exactly the same. It is also supported by Shahul (2011) who suggested that it will be advantageous to learn the existing standard for charities like SORP to be applied in waqf accounting in Malaysia. This research will use SORP framework in determining the level of waqf disclosure by waqf institutions in Malaysia.

2.1.4 Schematic Diagram

![Schematic Diagram]

Disclosure in waqf institutions in Malaysia based on the Statement of Recommended Practice (SORP) standard of the accounting information in the waqf institution annual report in Malaysia. The hypothesis was proposed in order to investigate the level of disclosure of the accounting information in the waqf institution annual report in Malaysia.

P$_1$: The disclosure content on trustee annual report of waqf institution in Malaysia meets the recommended requirement by SORP.

P$_2$: The disclosure content on general accounting principles of waqf institutions in Malaysia meets the recommended requirement by SORP.

P$_3$: The disclosure content on statement of financial activities of waqf institutions in Malaysia meets the recommended requirement by SORP.

P$_4$: The disclosure content on balance sheet in any waqf institutions in Malaysia meets the recommended requirement by SORP.

3.0 METHODOLOGY

3.1 A Descriptive Study
This study is a descriptive study as it is concerned with the description of data and characteristics of a population that correlates with certain phenomenon (Sekaran and Bougie, 2009). A descriptive study is the most appropriate type of study to be used to explain the level of waqf disclosure which may be influenced by various independent variables including on-going concerns, accrual, relevant, reliable, comparable and understandable, income and expenses, gains and losses, and others (SORP, 2005). Information relating to waqf in the annual reports is taken into account and analysed to show significant differences or patterns concerning waqf disclosure in those annual reports using the conceptual analysis method. The annual reports will be examined whether it is in compliance with the accounting standards of the Statement of Recommended Practice (SORP). This research emphasises on using content analysis to examine the information disclosed by waqf institutions in Malaysia in order to evaluate the level of waqf disclosure. In this study, annual reports gathered from waqf institutions are analysed to extend its meaning and context using qualitative content analysis.

3.2 Sampling Design

The sampling method adopted in this study is the judgement sampling design under the non-probability sampling technique. The data that will be used for this research are based on secondary data which are the annual reports. The annual reports were analysed to find the significant differences between the independent variables and the Statement of Recommended Practice (SORP).

Table 3.1 shows a summary of the waqf disclosure items required based on the Statement of Recommended Practice (SORP) 2005.

<table>
<thead>
<tr>
<th>Table 3.1: Requirements for Waqf Disclosure</th>
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<tbody>
<tr>
<td><strong>Waqf Disclosure by Waqf Institutions</strong></td>
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<tr>
<td>The extent where waqf entities provide useful and material information regarding waqf in the entities’ annual report.</td>
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In this study, the level of waqf disclosure made by the waqf institutions in Malaysia was measured in accordance to the guidelines suggested by the SORP (2005). Data were collected from the Annual Reports of the selected waqf institutions.

<table>
<thead>
<tr>
<th>Content Element</th>
<th>Disclosure Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trustee Annual Report</strong></td>
<td>• Administrative details</td>
</tr>
<tr>
<td>The main role of the trustees’ yearly report is to guarantee that the waqf is openly responsible to its stakeholders for the stewardship of the assets it hangs on trust. The trustees ought to consider the data</td>
<td>• Structure, governance and management</td>
</tr>
<tr>
<td></td>
<td>• Objective and activities</td>
</tr>
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<td></td>
<td>• Financial review</td>
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</tbody>
</table>
needs of the essential clients of their report. These may differ from one waqf institution to the other, yet it will usually incorporate funders, benefactors, and beneficiaries.

<table>
<thead>
<tr>
<th>Plans and future periods.</th>
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<tr>
<td>Achievement and Performance</td>
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</tbody>
</table>

**General Accounting Principles (GAP)**
GAP are a common set of accounting principles, standards and procedures that waqf institutions must follow when they compile their annual reports. The purpose is to encourage consistency in waqf institutions' annual reports to allow cross comparison among different waqf institutions.

- Fundamental accounting concepts: going concern, accrual, relevant, reliable, comparable and understandable
- Classification of funds into restricted funds

**Statement of Financial Activities**
It is a statement that focuses on an organisation’s profit activities. The report reflects the changes to an organisation’s net assets resulting from the income and expenses that were occurred during the year.

- Incoming Resources and Resources Expended
- Gains and Losses

**Statement of Financial Position**
The statement lists the assets, liabilities, and equity of a company as of the report date.

- Classification of fixed assets into functional and non-functional assets
- Liabilities
- Charity funds

**Cash Flow Statement**
Information about the cash flows of a company that provides users with a basis to assess the ability of the company to generate cash and cash equivalents, and the needs of the company in utilising those cash flows.

- Cash flow from operating activities, investment activities and financing activities

### 3.3 DATA ANALYSIS

#### 3.3.1 Directed Content Analysis

In this research, a directed content analysis is adopted through qualitative analysis. The study shall stress in detail analysis of the content elements in the annual reports of waqf institutions. The content elements developed through the Statement of Recommended Practice (SORP) 2005 provide structured method as it is sub-coded as guidance to disclosure requirements. If the information disclosed is related to the element, then it shall be categorised under the categories. The first step is that data are reduced, rearranged and integrated to form theories through coding and categorization. The next step is to match operational meanings for each category to ensure that the correct measurement is applied on each content element. The third step requires intense reading and understanding to ensure that terms are categorised under the correct key categories. The fourth step is coding all marked text using the primary categories. However, the final step where the researcher will put all marked text that has not been categorised as a new code.
4.0 ANALYSIS AND FINDING

The data are being analysed based on the information details from the annual report of the waqf institutions.

4.1 Qualitative Content Analysis According to SORP

In this study, ten annual reports are selected randomly from few waqf institutions in Malaysia. They are collected by searching through websites and analysed their conformance of disclosure with SORP.

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<thead>
<tr>
<th>NAME</th>
<th>CODE</th>
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<tbody>
<tr>
<td>Majlis Agama Islam Selangor</td>
<td>MAIS</td>
</tr>
<tr>
<td>Majlis Agama Islam dan Adat Istiadat Kelantan</td>
<td>MAIK</td>
</tr>
<tr>
<td>Majlis Agama Islam dan Adat Melayu Perak</td>
<td>MAIPk</td>
</tr>
<tr>
<td>Majlis Agama Islam Wilayah Persekutuan</td>
<td>MAIWP</td>
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<tr>
<td>Jabatan Wakaf, Zakat dan Haji Jabatan Perdana Menteri</td>
<td>JAWHAR</td>
</tr>
<tr>
<td>Jabatan Kemajuan Islam Malaysia</td>
<td>JAKIM</td>
</tr>
<tr>
<td>Institut Kefahaman Islam Malaysia</td>
<td>IKIM</td>
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</tbody>
</table>
The findings in this study enhance the information about waqf disclosures among waqf institution in Malaysia. Specifically, objectives of this study conducted are to assess the level of waqf disclosure made by waqf institutions in Malaysia and to investigate whether the waqf institutions in Malaysia provide the disclosures that meet the suggested practices requirement by accounting bodies. This is because there is less emphasis placed on waqf issued in Malaysia nowadays.

Besides that, the study by Masruki and Shafii (2013) stated that the recording and reporting of waqf disclosure has been inconsistent and information reported by waqf institutions in Malaysia through annual report usually is not timely with majority of institutions had overdue and outdated annual reports (Siti Rokyah, 2005). Thus, this study could lead to further improvement on waqf reporting for waqf institutions in Malaysia to be consistent and correct manner for waqf institution in Malaysia.

Based on the findings, this study found out that the level of disclosure of waqf institution in Malaysia has reported a mix result. This means that half of the waqf institutions have demonstrated a high level of disclosure on their annual report while another half of the waqf institution are performed a low level of disclosure. It can be concluded that those waqf institution that did not score high level in the disclosure items might due to the institution’s accounting policies that set a limitation on the disclosure items in the annual report.

This analysis has found that the level of disclosure of waqf institution in Malaysia has reported a mix result which half of the waqf institution has demonstrated a high level of disclosure on their annual report while another half of the waqf institution are performed a low level of disclosure. It can be concluded that those waqf institution that did not score high level in the disclosure items are JAWHAR, JAKIM, IKIM, WANCorp and WSM. This might due to institution’s accounting policies that did not require the institutions to disclose the item in the annual report.

Besides that, it can be concluded that most of the waqf institutions have meet the suggested practices requirement by accounting bodies which is SORP standard. The waqf institutions that have meet the suggested practices did provide comprehensive and detailed items for the annual report. Thus, there were waqf institutions that did not disclose all the items in accordance to requirement stated by SORP standard. This might due to lack of standard requirement or guidelines by the institutions themselves on the information that should be disclosed in the annual report.

The waqf institution that has meet the suggested practices did provide the comprehensive and detailed items for the annual report. However, there were waqf institutions that did not disclose all the items in accordance with requirement stated by SORP standard. This might be due to the lack of the standard requirement or guidance.
5.0 CONCLUSION

As a conclusion, it can be proved that waqf institutions selected did provide disclosure items recommended by SORP in the annual report. Nevertheless, the disclosure items in the waqf institution varied due to the differences in each of the provision of enactment pertaining to the financial reporting. Apart from that, not all of the waqf institutions meet the suggested practices requirement set up by the accounting standard outlined by SORP due to understated information disclosed in the waqf institutions’ annual report. The waqf institution that has meet the suggested practices did provide the comprehensive and detailed items for the annual report. However, there were waqf institutions that did not disclose all the items in accordance with requirement stated by SORP standard. This might be due to the lack of the standard requirement or guidance.

5.1 Recommendation

This research suggests on establishment of another body to govern waqf entities comprising both public and corporate entities. This is due to the limitation of this study on ability to collect annual report from waqf institutions. This study also recommends waqf institutions to share the annual reports with its users by publishing it on their websites. Further recommendations are regarding the future research can also find or use other standard practice that can be implemented by waqf institution that best suit the needs of stakeholders rather than SORP. Besides, future research can further the study by investigating level of disclosure on waqf by waqf institutions in other countries such Indonesia, Singapore, Egypt and others that also has bodies that regulate waqf activities.

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