

**THE FINANCIAL REPORTING OBJECTIVE AND
STAKEHOLDER IDENTIFICATION OF *WAQF*
INSTITUTIONS: AN EXPLORATORY STUDY**

BY

NORMAN BIN HAMDAN

A dissertation submitted in partial fulfilment of the
requirements for the degree of Doctor of Philosophy
(Accounting)

**Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia**

2020

ABSTRACT

This study investigates why *waqf* institutions in Malaysia prepare their financial reports and to whom this financial information of *waqf* is disseminated. The potential of *waqf* as a sustainable economic resource and the absence of reporting framework and accounting standards for *waqf* present an opportunity to explore the financial reporting objective of *waqf* institutions and the identification of *waqf* stakeholders.

The thesis discusses the possibility of adopting decision-usefulness and/or stewardship/accountability as the reporting objective(s) by *waqf* institutions in Malaysia. The thesis also uses the stakeholder identification and salience model (MAW model) by Mitchell, Agle, & Wood (1997) to identify the stakeholders of these institutions and analyse their salience level with respect to their relationship with *waqf* management.

Semi structured interviews are employed to understand the perception of *waqf* managers on the objective of financial reporting by *waqf* institutions. The identities of *waqf* stakeholders have been identified through this method as well. This data collection method is complemented by documentary analysis.

The study finds that both decision-usefulness and stewardship/accountability objectives may be adopted by *waqf* institutions in Malaysia with different emphasis in preparing their financial reports. Those *waqf* institutions which engage more on non-income generating activities and providing social welfares may adopt stewardship/accountability as their primary reporting objective and decision-usefulness as their secondary objective. *Waqf* institutions which focus more on the income-generating activities to support the social element of *waqf* may adopt decision-usefulness as their primary reporting objective and stewardship/accountability as their secondary reporting objective. The interviews also reveal that there are 18 stakeholders of *waqf* institutions in Malaysia. Out of these, five groups of *waqf* stakeholders are perceived as salient stakeholders that *waqf* management should give higher priority in addressing their competing claims.

This study provides useful inputs for both *waqf* managers and regulators which may subsequently help to improve the financial reporting practice of *waqf* institutions and eventually enhance the accountability of this Islamic institutions in the third sector ecosystem.

خلاصة البحث

تبحث هذه الدراسة في سبب قيام مؤسسات الوقف في ماليزيا بإعداد تقاريرها المالية ولمن يتم نشر هذه المعلومات المالية عن الوقف. إن إمكانات الوقف كمورد اقتصادي مستدام وغياب إطار التقارير والمعايير المحاسبية للأوقاف تمثل فرصة لاستكشاف هدف التقارير المالية لمؤسسات الوقف وتحديد أصحاب المصلحة في الوقف. تناقش هذه الدراسة إمكانية تبني على القرار المفيدة و / أو الإشراف / المساءلة كهدف (أهداف) لإعداد التقارير من قبل مؤسسات الوقف في ماليزيا. تستخدم هذه الرسالة أيضاً نموذج تحديد أصحاب المصلحة (MAW) من قبل Mitchell, Agle, & Wood (1997) لتحديد أصحاب المصلحة في هذه المؤسسات وتحليل مستوى بروزهم فيما يتعلق بعلاقتهم بإدارة الوقف. يتم استخدام مقابلات شبه منظمة لفهم تصورات مدراء الأوقاف حول هدف التقارير المالية من قبل مؤسسات الوقف. تم تحديد هويات أصحاب المصلحة الوقفية من خلال هذه الطريقة أيضاً. وتستكمل طريقة جمع البيانات بتحليل وثائقي. توصلت الدراسة إلى أنه يمكن ان تتبنى على كلا الهدفان القرار- المفيدة والإشراف / المساءلة مما سيطبقها مؤسسات الوقف في ماليزيا مع التركيز بشكل مختلف على إعداد تقاريرها المالية. قد تعتمد هذه مؤسسات الوقف أكثرها على الأنشطة غير المدرة للدخل وتوفر أدوات الرفاهية الاجتماعية الإشراف / المساءلة كهدف رئيسي للإبلاغ وفائدة للقرار كهدف ثانوي. قد تعتمد مؤسسات الوقف التي تركز أكثر على الأنشطة المدرة للدخل لدعم العنصر الاجتماعي في الوقف ستبنى على القرار-المفيدة والإشراف / المساءلة كهدف للإبلاغ الثانوي. تكشف المقابلات أيضاً أن هناك 18 من أصحاب المصلحة في مؤسسات الوقف في ماليزيا. من بين هؤلاء، يُنظر إلى خمس مجموعات من أصحاب المصلحة في الأوقاف على أنهم أصحاب مصلحة بارزون ينبغي أن تولى إدارة الأوقاف أولوية أعلى في معالجة مطالبهم المتنافسة. توفرت هذه الدراسة مدخلات مفيدة لكل من مديري الوقف والمنظمين مما قد يساعد فيما بعد على تحسين ممارسة التقارير المالية لمؤسسات الوقف وفي نهاية المطاف تعزيز مساءلة هذه المؤسسات الإسلامية في النظام البيئي للقطاع الثالث.

APPROVAL PAGE

The dissertation of Norman bin Hamdan has been approved by the following:

Ahmad Zamri bin Osman@Hussin
Supervisor

Hafiz-Majdi bin Ab Rashid
Co-supervisor

Siti Alawiah bt. Siraj
Internal Examiner

Nawal Kasim
External Examiner

Hidayatul Ihsan
External Examiner

Imad Fakhri Taha Alyaseen
Chairman

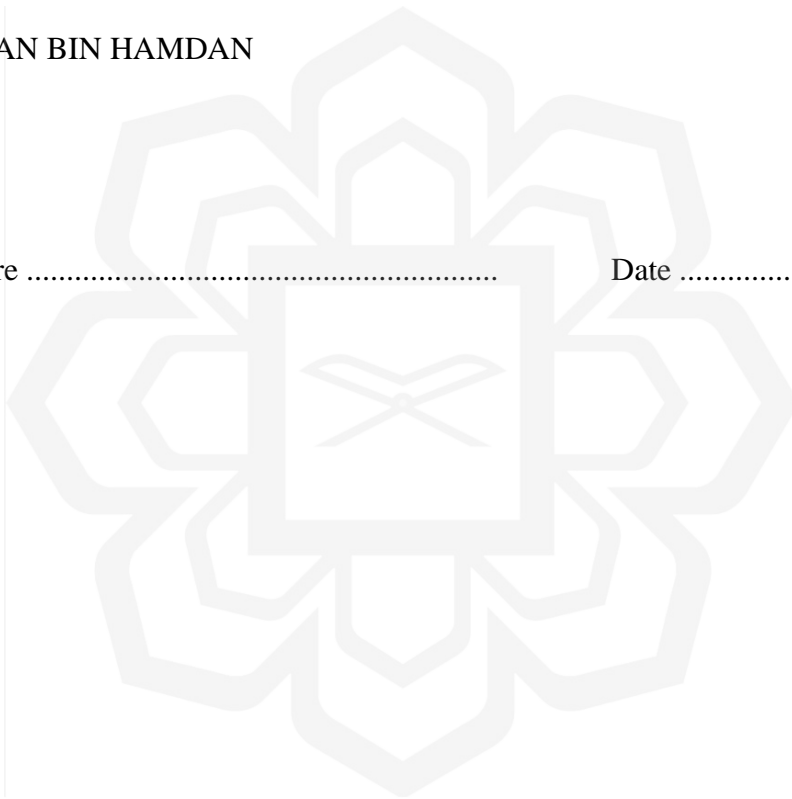
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NORMAN BIN HAMDAN

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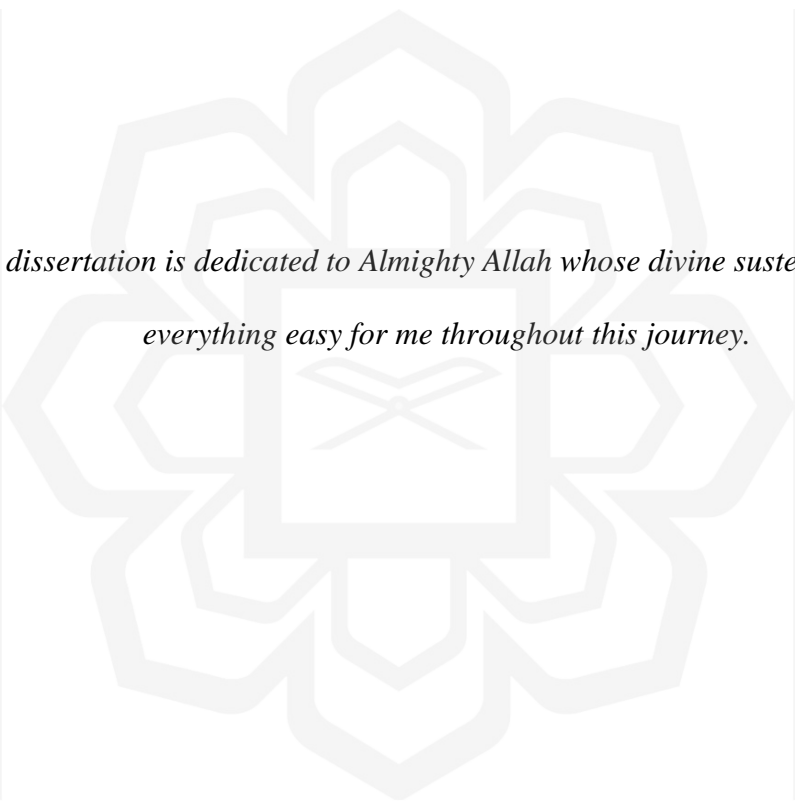
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This dissertation is dedicated to Almighty Allah whose divine sustenance made everything easy for me throughout this journey.

ACKNOWLEDGEMENTS

All praise is due to Allah, the Almighty for giving me this opportunity to complete this work. There were times when I thought I had neither the strength nor the will to finish it. But Allah is Great! His Grace and Mercy have been with me throughout this PhD journey.

I feel highly indebted to both supervisors, Dr Ahmad Zamri bin Osman@Hussin and Associate Professor Dr Hafiz-Majdi bin Ab Rashid for their guidance, patience and trust, which really inspired me from the beginning until the successful completion of my PhD. I wish to thank all the administrative and academic staff in the Kulliyah of Economics and Management Sciences and the Post-Graduate Office, for their support. Not forgetting all the colleagues and fellow friends on the campus.

Special thanks to all interviewees who participated in this study. They have been very helpful and honest in sharing their views and experiences. This study would not have been possible without their kind co-operation.

I gratefully acknowledge the financial support provided to me from the Government of Malaysia, the Ministry of Education and Universiti Sains Islam Malaysia (USIM). Not forgetting to all the administrative and academic staff in the Faculty of Economics and *Muamalat*, USIM, for their moral support.

No words can describe how I feel about my family. These few years have been difficult and challenging for us all. Mak and Abah, your *dua*' (prayer) and blessing made the difference for me. My deepest gratitude goes to my loving wife, Noor Hasinah Mat Daud for her sacrifices, support, patience and enthusiasm throughout this journey. To my beloved children – Noor Najdah, Ahmad Naufal, Noor Widad and Noor Wafa – you are among the greatest gifts from Allah for my life. To my dearest and sweetest daughter; Noor Najdah (passed away on 24 August 2018, during my final draft writing), you may not be at my side when I finally completed this PhD journey, but you will always be in ayah's heart until we meet again in Jannah, insyaAllah.

May Allah bless you all!

Jazakallah Khairan Kathira

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GLOSSARIES OF ARABIC TERMS

Akhlak	<i>Good manners</i>
Al-qayyim	<i>Agents of waqf</i>
Awqaf	<i>Plural of waqf</i>
Daruriyah	<i>Essentials</i>
Hajiyyah	<i>Complementary</i>
Haul	<i>complete one-year ownership</i>
Ibadah	<i>Ritual worship</i>
Ibdal	<i>Sale</i>
Istibdal	<i>Exchange</i>
Khalifah	<i>Vicegerent</i>
Maqasid	<i>Purpose</i>
Maqasid al shari'ah	<i>The purpose of shari'ah</i>
Mauquf 'alaih	<i>Beneficiaries</i>
Mazhabs	<i>Islamic schools of thought</i>
Muamalah	<i>Daily conducts</i>
Murabahah	<i>Islamic investment account</i>
Mutawalli	<i>Trustee</i>
Nazir	<i>Individual/organization appointed to act on behalf of SIRC's.</i>
Nisab	<i>minimum amount of wealth owned by a person</i>
Sadaqah	<i>Alms, voluntary charity</i>
Sadaqah jariyah	<i>recurring charity</i>
Shari'ah	<i>Islamic jurisprudence</i>
Sighah	<i>Waqf deeds</i>
Tahsiniyyah	<i>The embellishments</i>
Waqf	<i>Endowment</i>
Waqf am	<i>General waqf</i>
Waqf khas	<i>Special Waqf</i>
Waqif	<i>Donors/ waqf founder</i>
Zakah	<i>Compulsory charity</i>

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Islam recognizes the presence of the rich and the poor in a society. This is evidenced by the divine call (for examples; Quran 21:33, 19:54-55, 2:83, 5:12, 69:25-34) for care of the poor by the rich in the Quran, the only authentic divine scripture existing on earth today (Qaradawi, 2011). Islam has its own reasons for advocating wealth redistribution. Among others, it is a means to alleviate poverty in the society and to stave off the envious feelings in hearts of the less fortunate members of society. It is also a trial for a believer to testify his/her obedience to the order of Allah in relation to the wealth that s/he has accumulated (Qaradawi, 2011). Allah says: "O you who believe! Spend out of what We have given you" (2:254). There are at least three forms of charity acts in Islam namely *zakah*, *sadaqah* and *waqf*. *Zakah* is one of the five pillars of Islam and obligatory to all Muslims. It is the least charity a Muslim must give every year. Through *zakah*, the rich shares a small portion of his/her wealth with the poor. It is, however, subject to a minimum amount of wealth owned by a person (*nisab*) and a complete one-year ownership (*haul*) of the wealth.

Take *Sadaqah* (alms) from their wealth in order to purify them and sanctify them with it and invoke Allâh for them. Verily! Your invocations are a source of security for them, and Allâh is All-Hearer, All-Knower. (At Taubah: 103)

Muslim may also give voluntarily to simple charity, which is known as *sadaqah*. While *Zakah* can only be channelled to specific needy Muslims¹, *sadaqah* can benefit both Muslims and non-Muslims. The motivation for performing this charitable deed may due to the promises of eternal rewards from Allah. The benefit derived from this simple charity, however, may not last long as it is usually a single act of giving for a specific temporary cause. This brings us to the third form of charity acts which is *waqf*. Establishing a *waqf* may enable the simple charity or *sadaqah* to be repeated in perpetuity so that the one-off giving act becomes recurring charity (*sadaqah jariyah*). This type of charity is mentioned in one of the prophet's saying:

“Abu Hurairah reported Allah’s messenger as saying: When a man dies, all his acts come to an end, but three: recurring charity, or knowledge (by which people benefit), or a pious offspring, who prays for him” (Sahih Muslim, 1992: Chapter 3, Hadith 14).

The recurring nature of *waqf* lies in the ability of this charity to generate continuous benefits to the recipients. When this happens, the donors will constantly receive the rewards as long as the donated assets continue providing such benefits.

When people give money to charity, their expectation from the charity management (trustee) is that those monies are wisely spent and rightfully channelled to the cause for which the organization is established. As for *waqf*, the purpose of such giving is specifically prescribed by the donor (*waqif*), therefore, the trustee or *mutawalli* is

¹ Eight *asnaf* of *zakah* as mentioned in the Quran; "*Zakah* is for the poor and the needy, and amil (those employed to administer the funds), for the muallaf (those who have embraced Islam), for those in bondage and in debt, those who strive in the cause of Allah and for the wayfarer: (thus is it) ordained by Allah and Allah is full of knowledge and wisdom." (Surah At-Taubah: 60).

responsible for ensuring that those donated assets are well managed, and the benefits derived from those assets are routed to the intended beneficiaries. Unlike simple charities, the challenge of the management of *waqf* institutions is threefold. First, as a requirement in *waqf* arrangement, the assets received from the donors must be preserved converted into a property that could last for perpetuity. Second, the property should then be properly administered to generate continuous benefits. Third, the benefits from the *waqf* property should be distributed to the intended beneficiaries. Maintaining this effort is crucial for the *waqf* managers to ensure *waqif* the perpetual reward from Allah for their donated assets and to ensure beneficiaries the long-lasting benefits from the *waqf* assets. *Waqf* managers are accountable for their actions in administering the *waqf* properties. To whom they are accountable is one of the prominent issues this study seeks to explore.

Reporting is one of the accountability mechanisms that an institution could use to discharge accountability to their stakeholders (Ebrahim, 2003). Through proper reporting, the stakeholders could monitor how the *waqf* institutions are managing the donation entrusted to them. This reporting practice could also help to enhance greater transparency and accountability of *waqf* institutions (Masruki & Shafii, 2013). As a key ingredient to gain public confidence, transparency can be achieved through fulfilling financial reporting requirements and making the accounts easily accessible to the public (Alias, 2012).

Since the 1950s upon a series of law enactments pertaining to *waqf* in Malaysia, all *waqf* properties including special *waqf* (*waqf khas*) and general *waqf* (*waqf am*) were vested under the jurisdiction of State Islamic Religious Councils (SIRCs). The

trusteeship of *waqf* has been transferred from individual donor appointed *mutawallis* to the SIRC^s as sole trustees of *waqf* properties in the country (Tunku Alina, 2011).

When the issues of inefficiency of SIRC^s resulting in disrepair and undeveloped *waqf* assets began to draw public attention (Hassan, 2008; Chowdhury, Chowdhury, Zulkifli Muhammad, & Rushdan Yaso, 2012) initiatives have been undertaken by some SIRC^s to foster the development of *waqf* properties by engaging private sectors (Ibrahim & Ibrahim, 2013). The cooperation between State Islamic Religious Council of Johor and Johor Corporation (JCorp), for example, has resulted in the establishment of a successful *waqf* institution namely *Waqf Annur Corporation* (WANCorp). In this model, WANCorp has been appointed as a sub-*mutawalli* to manage the *waqf* shares endowed by JCorp and to distribute the benefits in the form of dividend of the shares to the beneficiaries as prescribed in the *waqf deed*² of JCorp.

Another example is Wakaf Selangor Muamalat, an effort between State Islamic Religious Council of Selangor and Bank Muamalat to realize the concept of cash *waqf*. Other similar efforts have been undertaken by other SIRC^s with the aim to finance the development of *waqf* assets that have been vested under their responsibility. These moves involve varying governance structures and more stakeholders other than donor, *mutawalli* and beneficiary, thus entails more complex reporting issues.

² Legal document made by *waqif*/donor containing statement of *waqf* purposes and intended *waqf* beneficiaries.

1.2 PROBLEM STATEMENTS

Malaysian Accounting Standard Board (2014) (MASB) has identified four types of *waqf* administrators within the *waqf* institution in Malaysia. The first and predominantly practiced is *waqf* administered by the respective SIRC's of each state. This is in line with legal requirement whereby all SIRC's are the sole trustees of all *waqf* assets³. The second type of *waqf* administrator operates in the form of incorporated companies. An example of this *waqf* administrator is Waqaf An-Nur Corporation Berhad (WANCorp) which is a limited by guarantee company established to manage the assets and shares of Johor Corporation Group of Companies endowed for *waqf*. The third form is public universities administering *waqf* assets such as *Wakaf Dana Ilmu* by Universiti Putra Malaysia (UPM), *Dana Wakaf UKM* by Universiti Kebangsaan Malaysia (UKM) and *Dana Wakaf Al Abrar* by Universiti Sains Islam Malaysia (USIM). These public universities have been authorized by the respective SIRC's to administer *waqf* in the higher education domain. The fourth form of *waqf* institution falls under the category of registered society or registered trustee. Malaysia *Waqf* Foundation (*Yayasan Waqaf Malaysia*) is an example of this form of *waqf* administrators established as a national *waqf* entity under the jurisdiction of the Department of Islamic Development Malaysia (*Jabatan Kemajuan Islam Malaysia*).

³ Section 4 (1) "The Majlis shall be the sole trustee for all *wakaf* situated in the State of Selangor and shall have the powers to (a) establish a Corporation; (b) appoint or give written permission to any person to become the administrator or manager and hold any *mawquf* on his behalf; and (c) declare the appointment of any administrator or manager in situation where *waqif* has appointed his own administrator or manager subject to the terms and conditions prescribed by the Majlis" Wakaf (State Of Selangor) Enactment 2015.

It is argued that the financial reporting framework that applies to a waqf would depend on these legal forms. Each of these administrators has their own authorities and is bound by different legal requirements. As reporting entities, SIRC's are required to comply with the federal or state directives on financial reporting. This may include the compliance with MASB approved accounting standards or Malaysian Public Sector Accounting Standards (MPSAS). Waqf institution that takes the form of incorporated companies needs to lodge a financial report in accordance with the requirement by Securities Commission and Registrar of Companies. As such, they must prepare financial reports in compliance with the MASB approved accounting standards. Public universities administering waqf are federal statutory bodies and established under the Universities and University Colleges Act 1971. Thus, while it is not yet imposed, the financial statements that they prepare should be subjected to Malaysian Public Sector Accounting Standards (MPSAS).

With regards to the registered societies, the Registrar of Societies (ROS) acknowledged that the statements submitted by societies are not complete financial reports (Malaysian Accounting Standards Board, 2014). Section 14 (1) of the Societies Act 1966 provides that registered societies need to account for their activities and submit the financial reports to the ROS every year. However, the Act does not specify which accounting standard need to be complied with in preparing the financial reports. This has led to varying reporting practices by the societies in Malaysia. For example, the societies that carry out charity missions in Malaysia adopt the Statement of Recommended Practice (SORP); an accounting standard for charities issued by the UK Charities Commission (Nasir, Othman, Said, & Ghani, 2009). Similarly, for registered trustees administering

waqf, there is no specific prescription in the Trustees (Incorporation) Act 1952 as to which accounting standard to comply with.

Each type of *waqf* institutions also has different approach in allowing public access to the financial reports. Public may easily access the accounting information prepared by *waqf* institution that operates as an incorporated company and registered trustee. Whereas, there is no legal requirement imposed on SIRC's and public universities to issue the reports to the public. As a consequence, there appears to be unwillingness on the part of the civil service to release government information to the public (Malaysian Accounting Standards Board, 2014). For example, in the Siti Rokyah (2005) and (Abu Talib et al., 2018) study on the SIRC's' reporting practices, she found that the level of disclosure in the financial reports varies across these organizations. Recent study on three selected *waqf* institutions (Perbadanan Wakaf Selangor, Pusat Wakaf MAIWP Sdn Bhd and Majlis Ugama Islam Singapura) also indicates varying disclosure practices (Kamaruddin, Masruki, & Hanefah, 2018). Meanwhile, the Societies Act 1966 only requires the registered societies to provide annual reports to members without specifying the requirement to disclose any reports to the general public.

The adoption of the existing reporting standards by each type of *waqf* administrators may not be appropriate for certain reasons. As argued by Shahul Hameed (2000), the philosophical underpinning of conventional accounting makes it unsuitable for accounting in Islamic institutions and business organizations. Certain shariah issue with regards to the measurement of *waqf* assets may not be properly addressed by the conventional accounting practice (Hisham & Shahul Hameed, 2006; Shafii, Yunanda, & Rahman, 2014). On examining the accounting practices of two *waqf* institutions,

which adopt the conventional accounting standards, Anna & Mohamed Hisham (2015) found that the reports did not adequately address the disclosure of utilization of *waqf* funds as stipulated by *waqif*. The study also suggests that more disclosure on the institutions' sharia-based financing and investment of *waqf* funds need to be incorporated in the financial reports.

The variation of reporting requirements and practices as mentioned above have also led to an urgent need for financial reporting standard of *waqf* institution. The importance of having special accounting standards for *waqf* institutions has been highlighted in numerous literature (for example, Hairul Suhaimi and Hisham, 2011; Ihsan and Adnan, 2011b; Rosnia and Zurina, 2013). These literatures point out that the absence of financial reporting standard of *waqf* has been the main reason for such differences in *waqf* financial reporting practices.

This current study, however, argues that the real problem of the varying reporting practices of *waqf* institution does not lie exclusively on the non-existence of financial reporting standard of *waqf* but it rather entails from the absence of conceptual framework for financial reporting of *waqf*. The work of Adnan, Maliah, and Putri Nor Suad (2007) provides the basis of this argument. The authors concede that the study on the conceptual framework and accounting standard for *waqf* institutions is very much welcome to improve the accounting issues related to transparency, accountability and good governance of *waqf* institutions. Without a generally agreed conceptual framework, as argued by the authors, the consistency among the standards and the cohesiveness and impartiality of standard setting may not be guaranteed.

The conceptual framework sets out the fundamental objectives and concepts that underlies the preparation and presentation of financial statements. It provides a basis for the development of future accounting standards and in reviewing existing standards (Peasnell, 1982). Furthermore, the conceptual framework assists preparers, auditors and users in applying the accounting standards and interpreting the financial statements prepared in compliance with the respective standards (Brouwer, Hoogendoorn, & Naarding, 2015). In the absence of specific prescription for a particular transaction or event, the preparers may use the conceptual framework as a basis to determine an entity's accounting policy for that transaction or event (Wells, 2011). Therefore, the absence of specific standards of financial reporting of *waqf* should not thwart the effort of preparers to develop the entity's accounting policy if a conceptual financial reporting framework of *waqf* exists. However, in the case of *waqf* institutions in Malaysia, with the nonexistence of both conceptual framework and financial reporting standards of *waqf*, the preparers have no basis in terms of conceptual objectives and concepts to rely upon in determining the accounting policy for *waqf* related transactions or events. The existing conceptual framework adopted by *waqf* institution in Malaysia is for financial reporting for business entity. Even the Islamic financial institutions (in case of AAOIFI) still requires different conceptual framework that will assist them to develop Financial Reporting Standards for Islamic Financial institutions (IFI). For *waqf* to use this IFI Conceptual Framework may not be appropriate as *waqf* and IFI are totally different type of entity even though both are Islamic organisations. Hence, the need for conceptual framework of *waqf* financial reporting has been the impetus of the current study.

This study, however, is focusing only on the first main issue of a conceptual framework for financial reporting, which is the objective of financial reporting. The establishment