

HYBRID FINANCIAL REPORTS FOR WAQF PROJECTS TOWARDS ENHANCING ACCOUNTABILITY AND TRANSPARENCY OF WAQF INSTITUTIONS IN MALAYSIA: A CONCEPTUAL PAPER

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Abstract: *Nowadays, the number of waqf projects is on the rise in Malaysia. Several public universities have initiated and managed waqf projects in various sectors, including the agriculture sector. These waqf projects contribute significantly to the economic and social development of the country. Despite its increasing popularity and importance, the sustainability of waqf institutions may be jeopardized due to its poor accountability and transparency. The lack of suitable accounting standards and regulation could compromise the quality and comparability of accounting information. This research aims to propose a set of practical and applicable hybrid financial report for agriculture waqf projects with income generation prospects. The proposed conceptual model would be a tool that will help transform the conventional reporting into a more transparent financial reporting by integrating the conventional accounting standards and waqf accounting practices from various policy makers to enhance and enrich the good corporate governance practices. Consecutively, it will help policy makers in issuing comprehensive financial reporting guideline and framework for waqf institutions which ultimately would enhance the confidence level amongst waqf contributors for waqf funding as instruments for economic and social development.*

Keywords: *accountability, financial reports, hybrid financial reports, transparency, waqf project*

Introduction

To date, waqf has proven to serve the community in many Islamic countries such as Egypt and Turkey (Othman et al., 2017; Megat et al., 2007). In Malaysia, waqf is not widely practiced even though it has essential and significant potential in providing social goods to the ummah. However, there is a good development whereby waqf projects are no longer solely initiated and managed by religious associations, institutions or groups. Nowadays, institutions like public universities are also involved in collecting and managing assets for waqf purposes, particularly the liquid assets. This development is timely as they are closer to the beneficiaries of waqf like students and nearby communities. It can also contribute to the strategic management of the public universities when the waqf projects start to generate income. Therefore, future sustainability of funding for the public higher education institutions is enhanced.

Collecting and operationalizing activities for waqf projects are manageable as the dedicated unit set up by public universities can easily find knowledgeable and qualified staff to work on the waqf operations. However, it is a challenging task to properly account and record transactions, events and matters of the income-generating waqf projects because of the lack of suitable accounting framework and regulations. Prior to the last decade, little attention had been given on waqf accounting by the academics (Ihsan et al., 2009). However, the lack of clear guidelines or accounting standards for waqf institutions has attracted the attention of a few researchers who have proposed accounting for waqf institutions to ensure the accountability and transparency of the institutions (Talib et al., 2018).

Entities in Malaysia are adopting either Malaysian Private Entity Reporting Standards (MPERS), Malaysian Financial Reporting Standards (MFRS), or Malaysia Public Sector Accounting Standards (MPSAS). However, Waqf Institution in Malaysia are under the purview of the State Islamic Religious Council (SIRC) and applies MPSAS as a guideline for their financial accounting and reporting. However, the MPSAS does not have standard guidelines specifically on waqf accounting. The limitation for agriculture waqf-based project requires further application of initial and subsequent recognition and measurement of bearer plants and biological assets which can be found under current MPSAS 17 on Property, Plant and Equipment and MPSAS 27 on Agriculture and MPSAS 1 Presentation of Financial Statements. The current practice in Malaysia only relies on the available standards which are not sufficient enough to accommodate the current needs in income-generating agriculture waqf projects into waqf accounting

Therefore, a new hybrid financial report for waqf project would be one solution to ensure the accountability and transparency of waqf institutions in Malaysia. Thus, it is important to address the integration of the recording of waqf and conventional financial reporting to help income-generating waqf projects come up with a more comprehensive and transparent reporting of their financial statement towards discharging their accountability to the stakeholders at large.

Literature Review

Overview of Waqf

Waqf is a religious endowment recognized by the Islamic law as a religious, pious or continuous charitable act that plays vital role to serve different types of humanitarian purposes to ensure the communities receive better quality of life. From the Shariah perspective, waqf means holding a maal (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy (Kahf et al., 1998). Waqf also involves the dedication of an asset in perpetuity either for specific purposes or for general purposes (Sait et al., 2005) in which its profitable returns are distributed accordingly among the beneficiaries (Raissouni et al., 2011). However, waqf is not necessarily in the form of fixed assets but can also be in the form of liquid assets. Rashid (Rashid et al., 2011) highlighted that waqf would include: (1) an endowment of title to some property from which any benefit, interest or profit may be derived; (2) an endowment of any interest or profit from some property; (3) waqf by the consumer, and such waqf shall not be solely by the user who has ceased, irrespective of the term of such termination; (4) grants or nazar commonly known as religion and charity; (5) family waqf (waqf al-aulad); and (6) waqf al nuqud (waqf cash). Throughout Islamic history, the waqf institutions in Muslim countries succeeded in the accumulation of waqf properties.

Waqf is a special kind of philanthropic deed in perpetuity that plays significant role in uplifting the socio-economic status of the Muslim society. Waqf funds have been importantly adopted and implemented in many social and human development-related fields, such as urban services, education, health and hygiene (Hasan et al., 2006) which can become a solution to balance the human development and economic system (Khairi et al., 2014). Waqf also contributes significantly towards huge reduction in government expenditure (Cizacka et al., 2000). In Malaysia, all Islamic matters including waqf are entrusted to the authority of the individual states, that is, the State Islamic Religious Councils (SIRCs), and a department under the Prime Minister's Office, Jabatan Waqf, Zakat dan Haji (JAWHAR). The increasing awareness of the huge potential of waqf institutions led to the establishment of Yayasan Wakaf Malaysia (YWM) in 2008 as a special liaison between JAWHAR and the SIRCs to coordinate the development of waqf properties in Malaysia (Shabbir et al., 2018).

Technically, waqf is significantly different from profit-based organizations in terms of achieving its objective whereby its performance is based on the organizations' achievements on targets set. With regards to the agriculture sector, it can be a lucrative sector to the community it serves if it is cultivated with full dedication and commitment considering the embedding of waqf assets, namely cash and non-cash waqf. The establishment of a waqf trust could be considered a possible alternative instrument to activate idle agricultural land and agricultural development (Shafiai et al., 2015). Kahf (Kahf et al., n.d.) found that a large proportion of the cultivated areas are waqf lands whereby in most countries, the waqf generated revenues were most frequently spent on education in mosques, along with settling the teachers' and imams' salaries. Sadique (Sadique et al., 2010) argued that the investment of waqf properties through different financing modes could generate good returns for society which enables the waqf institutions to provide end beneficiaries with the required services and needs.

Challenges for Financial Reporting of Waqf Institutions

Despite its affirmed importance, the sustainability of waqf institutions can be jeopardized due to poor accountability and transparency. This is because there is lack of waqf accounting standards to be adopted in the preparation of their financial statements which might compromise the quality of waqf accounting information (Mansor et al., 2017) and make the financial reports of waqf institutions incompatible across the globe. Furthermore, incompetent personnel, and mismanagement and misappropriation of waqf funds also contributed to the poor accountability of waqf properties (Yaacob et al., 19th). The challenges faced by the waqf institutions in adopting waqf accounting and reporting are attributed to: (1) coercive pressure like government regulations, (2) normative pressure that hinders the standardization of waqf accounting and reporting, and (3) mimetic pressure that makes it difficult to compare waqf accounting and reporting practices among the Malaysian SRICs (Talib et al., 2020).

There were diverse financial accounting and reporting practices by the waqf institutions) (Masruki et al., 2013; Yaacob et al., 2015), (Talib et al., 2018). As for Malaysia, diverse waqf accounting and reporting practices across the state was due to the independent regulation of the activities of waqf practices by SIRC which was headed by the Sultans (the ruler) and his board members (Talib et al., 2018). Additionally, the involvement in commercial undertakings have created confusion to waqf institutions as to whether their accounts should be prepared as public or private entities. Previous studies have failed to clearly establish a unanimous view on what waqf institutions should present in their annual reports and accounts with some researchers suggested the adaptation of for-profit entities (Azmi et al., 2015) while others were of the opinion to apply that of not-for-profit entities (Hamdan et al., 2013).

Regulations, Guideline and Accounting Standards for Waqf Institutions

The Board of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has just approved the accounting standards for waqf institution which took effect on 1 January 2022 (Umar et al., 2021). AAOIFI is a non-profit organization established in Bahrain with the roles to issue accounting standards and guidelines related to Shariah and Islamic Finance areas (TheAccSense et al., n.d.). In Malaysia, entities are applying either Malaysian Private Entity Reporting Standards (MPERS) for private limited companies, Malaysian Financial Reporting Standards (MFRS) for public limited companies or Malaysia Public Sector Accounting Standards (MPSAS) for government entities. However, none of these three (3) frameworks has specific standards for waqf institution (TheAccSense et al., n.d.). In 2014, Malaysian Accounting Standard Boards (MASB), the developer of accounting standards in Malaysia, has issued a research paper on accounting for waqf. The research paper welcomes any discussion on possible improvements to waqf accounting and reporting. Malaysian Accountant General Department of Malaysia also has put in a lot of effort to come out with an accounting framework on waqf in Malaysia (TheAccSense et al., n.d.).

Waqf in Malaysia is under the purview of State Islamic Religious Council (SIRC) or provincially known as 'Majlis Agama Islam Negeri (MAIN)' in thirteen (13) states and federal territories of Malaysia (Malaysian Accounting Standards Board, 2014; Samsudi et al., 2019). SIRC applies MPSAS as a guideline for their financial accounting and reporting. However, the MPSAS does not have standard guidelines specifically on waqf accounting. Bank Negara Malaysia (BNM) through the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) had raised the attention to these and had exhorted the SIRC to collaborate with a few Islamic Banks in Malaysia to develop Waqf Fund action plan with the aims to synergize and boost the economy of the Islam society in Malaysia (My et al., 2019).

The advent of waqf accounting research has gotten the most attention recently even though the idea of accounting practices on waqf is not fresh at all. According to Ihsan and Adnan (Ihsan et al., 2009), waqf accounting, especially on cash waqf record management, had been carried out since 1940 during the Ottoman Empire. During that time, the waqf institution gathered important information including annual income, expenditures and increment of waqf assets but the recording methods were based on single entry only. However, the evolution of accounting practices for waqf is far left behind as most academicians and researchers probably thought waqf accounting is not as complicated as Islamic Banking (Hidayatul et al., 2016) and it does not have many issues as they only require basic disclosures and practices (Ihsan et al., 2009). Transparent and informative annual reports should be easily accessible to the internal and external stakeholders. In the context of a waqf institution, existing and potential donors should have the accessibility to gain relevant information from waqf activities including procedural matters, religious benefits and economic impact from the waqf (Ab et al., 2017).

Based on the new accounting standards proposed by AAOIFI, Financial Reporting by Waqf Institution (FAS 37), the standards require waqf asset to be measured at fair value (TheAccSense et al., n.d.). In the context of agriculture waqf based project, it requires further application of initial and subsequent recognition and measurement of bearer plants and biological assets which can be found under current MPSAS 17 on Property, Plant and Equipment and MPSAS 27 on Agriculture. The present research will explore MPSAS 1 Presentation of Financial Statements and accommodate the current needs in income-generating agriculture waqf projects into waqf accounting and finally propose a new hybrid financial report. However, there is no previous study on waqf accounting in the context of agriculture projects that has future economic benefits to the government entities. This study aims to fill in the gap by integrating new elements in waqf accounting such as bearer plants and biological assets to make it into new hybrid financial report.

Methodology

This research is qualitative in nature and uses content analysis method as the main source of information by analyzing related papers, journal articles, and relevant standards related to agriculture, waqf, and financial reporting. This method aims to analyze the theoretical data from primary resources: MPSAS 27 Agriculture, MPSAS 1 Presentation of financial statements, MFRS 141 Agriculture (issued by Malaysian Accounting Standards Board), and FAS 37 Financial Reporting by Waqf Institutions (issued by the Accounting and Auditing Organization for Islamic Financial Institutions) to identify and explore the elements that should be included in the financial reports of income-generating agriculture waqf institutions. Besides content analysis, this study also adopts a case study approach to observe an ongoing income-generating agriculture waqf project. The researchers integrate new elements into Statement of Waqf Activities and converge the statement with conventional Statement of Profit or Loss to propagate a new hybrid financial report.

Conceptual Model

Figure 1 below depicts the proposed new hybrid financial report of the income-generating agriculture waqf project in view of its activities involving income-generation in agriculture and funds from waqf. The model integrates the elements of waqf activities and conventional element of income and expenses to derive the net surplus/deficit.

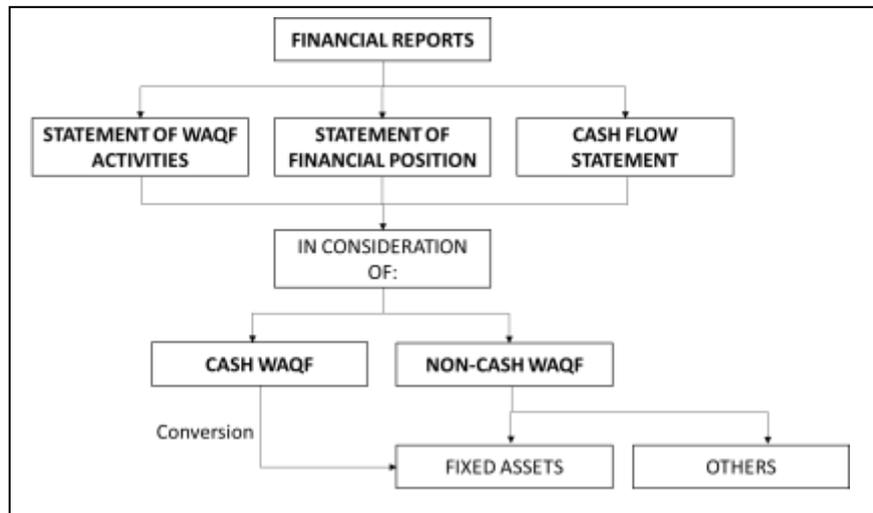


Figure 1: A Conceptual Model.

Accounting for normal type of business requires the business to prepare five (5) main components of Financial Statements which are; (1) Statement of Profit or Loss and Other Comprehensive Income to show company's performance and profitability, (2) Statement of Financial Position to show company's position in terms of the ending balance of their assets, liabilities, and equities at the end of the financial accounting period, (3) Statement of Changes in Equity to show the movement of company's equities and reserves throughout the financial accounting period, (4) Statement of Cash Flows to show cash inflows and cash outflows from three main activities of the business including operating activities, investing activities and financing activities and (5) notes to the accounts considering further explanation and details breakdown of the amount reported under Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position and Statement of Changes in Equities in which the company wanted to highlights certain important information to their stakeholders.

However, the current research focused on the specialized industry which portrays the accounting specifically for waqf projects that relates to agricultural activities. Therefore, to fit with relevant information provided in waqf agriculture projects, proforma hybrid financial statements has been proposed as per Figure 1: Conceptual Model which only constitutes three (3) main statements which are (1) Statement of Waqf Activities to accumulate information related to cash waqf and non-cash waqf. This is the modified statement from Statement of Changes in Equity as capital and reserves in Waqf Institution is presented in the form of Waqf, (2) Statement of Financial Position to disclose ending balance of assets, liabilities and waqf value, (3) Cash Flow Statements to disclose any inflows and outflows from the waqf agriculture projects. We excluded Statement of Profit or Loss and Other Comprehensive Income as Waqf institution is not a profit-oriented entity. The proposed conceptual model should be used as a tool to record cash waqf and non-cash waqf as well as the conventional elements of the normal operation of a business in running the income-generating waqf agriculture project as a comprehensive financial report.

Conclusion

Due to the increasing requirement on the transparency of financial reporting disclosures, waqf accounting has become one of the popular and preferable research areas among academicians and researchers. Poor accountability and transparency of financial reporting might jeopardize the sustainability of waqf institutions as it compromises the quality and comparability of the

accounting information. Transparent reporting of waqf projects will contribute to the ultimate goal of sustainability of waqf system in the modern economy as waqf can reduce the need for borrowing. In response to the accountability towards the stakeholders, a new hybrid financial report is necessary to enhance the quality and transparency of financial reporting of waqf projects, strengthen and promote good governance in waqf institutions, increase public's confidence in waqf agricultural projects and be relevant to regulators and policy makers. Consequently, quality, transparent and comparable financial information helps waqf institutions obtain funding from local and international waqf contributors to invest in more waqf projects. Thus, this would contribute to the improvement and strengthening of the social and economic conditions of the society. Further studies need to be conducted in the future using the proposed conceptual model to assess the effectiveness of hybrid financial reporting to enhance the waqf institution performance reporting.

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