

An Exploratory Study of Accounting and Reporting Practice for *Waqf* Among State Islamic Religious Councils in Malaysia

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ABSTRACT

Nowadays, Muslims has been exposed to the increasing number of waqf practice and the importance of waqf to the society due to the huge benefits in the socio-economic development and assist the poor and those in need. However, there is a lack of accounting system and systematic management of waqf assets and the absence of written procedures of recording financial transactions of waqf assets. The purpose of this research is to identify the range of differences of waqf accounting practice in details and discover the rationale behind the diverse of accounting and reporting practices for waqf. It examines accounting and reporting practices in terms of recognition, measurement and disclosure in eleven selected state waqf institutions. It provides an insightful meaning of the issues and challenges on how accounting is practice in these State Islamic Religious Councils (SIRCs). From the analysis conducted, it is found that the financial accounting and reporting related to waqf in SIRCs differs in terms of the guideline used, the recognition and measurement (valuation of waqf asset) as well as the disclosure and reporting practice of waqf. The variations of accounting and reporting practices in these waqf institutions portray the dynamism of waqf accounting and reporting among SIRCs in Malaysia. The reason for the variation in accounting practice is attributed to the nature of SIRCs governance where each SIRC is headed by its ruler (Sultan) as the ultimate authority in Islam and the fatwa councils' decision. The decision of the Board members with regard to the management and administration of waqf may differ in each states.

Keywords: accounting, Islamic Religious Council, waqf, waqf accounting and reporting, waqf management

Waqf is an Arabic term means to hold, confinement or prohibition (Kahf 1998). *Waqf* is referring to non-perishable property whose benefits and usufruct can be extracted without consuming the property itself. It is an honest gift in the form of private possession to the state or person of authority for the benefits of all as long as the wealth is used in accordance with the Islamic requirements (Masruki & Shafii 2013). *Waqf* properties currently being managed by the state through its state Islamic religious councils in Malaysia. Each states is empowered to manage its own state *waqf*

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including land, buildings and cash donated by the donors of *waqf*. However, the challenges in managing the *waqf* is the diversification of the *waqf* practices which has been emphasised by many scholars which may hinder the standardisation of the *waqf* practices in Malaysia. Past studies has emphasised on the lack of proper accounting record for *waqf* institution in Malaysia (Abdul Rahman et . al. 1999; Siti Rokyah 2005; Ihsan 2007; Ihsan & Adnan 2009; Ihsan & Ibrahim 2011). There is a lack of accounting system and systematic management of *waqf* assets and the absence of written procedures of recording financial transactions of *waqf* assets (Abdul Rahman et al 1999). Mustafa (2007) found that most state *waqf* institutions had no up-to-date audited financial statements. Terengganu SIRC also faces the same problem on the unsystematic documentations which lead to an obsolete record and unsystematic *waqf* property data.

The lack of proper accounting record has been associated with the absence of a standard for *waqf* accounting and reporting (Masruki & Shafii 2013). Thus, recent scholars has emphasised on the importance of having a standard for *waqf* administration in order to resolve the issue of accountability and transparency of the *waqf* institutions in Malaysia (Adnan et al. 2007; Hamdan et.al, 2013; Dahlan et.al, 2014; Ihsan et al. 2016). The growing number of *waqf* nowadays, which can be considered as a huge amount of *waqf* assets that can be developed and contribute to the socio-economic development, has led to the importance of having a good accounting and reporting standards for *waqf*. There is a growing awareness concerning the accountability of the trustee in managing *waqf* and being an institution that delivers social services to the community, the demonstration of accountability to various stakeholders is required (Ihsan et al. 2016). An effort has been done by few related parties to develop a standard for *waqf* for all SIRC in Malaysia. This can be seen from the recent effort by the Accountant's general department of Malaysia with the collaboration of few groups of universities' researchers in Malaysia to set up a standard in order to facilitate the management and administration of *waqf* assets. Up to date, there is a call towards the standardised *waqf* accounting and reporting. However, there is lack of study explores the similarities and differences that exist among the State Islamic Religious Councils in Malaysia pertaining to the treatment, recognition of *waqf* asset, measurement and valuation of the *waqf* lands and buildings as well as the disclosure and reporting practices in these *waqf* institutions. Perhaps, the study may be useful and may provide an insight on how these differences can be resolved and achieving the standardisation of *waqf* accounting and reporting among all SIRC in Malaysia.

This paper purposes to understand and examine the diversity of *waqf* accounting and reporting practices in *waqf* institutions in Malaysia namely State Islamic Religious Councils (SIRC). The research questions focus on (1) how does *waqf* transactions of SIRC in Malaysia being accounted and reported? (2) Why *waqf* accounting practices in SIRC differs in terms of recognition, measurement or valuation as well as disclosure. Using a case study of 11 *waqf* institutions in Malaysia, this paper provides empirical evidence of similarities and differences in the practices of *waqf* accounting and reporting among SIRC in Malaysia.

Waqf Accounting and Reporting Issues

The issues discussed below are related to the *waqf* accounting and reporting in the States Islamic Religious Councils in Malaysia which become the factors leading to the call for standardization of accounting and reporting for all *waqf* institutions in Malaysia.

Diversification of Waqf Accounting and Reporting Practices

In Malaysia, any matters related to *waqf* are solely controlled and administered by SIRC in accordance to The Federal Constitution's Ninth Schedule, List II (State List). The jurisdiction of SIRC as the sole trustee of *waqf* land has clearly been embedded in each respective state enactment. All *waqf* land, whether movable or immovable could only be administered and managed by the council (Ismail et. al, 2015). Thus, recording and reporting for *waqf* in Malaysia has been inconsistent. It has been noted that different *waqf* institutions has its own accounting practice (Masruki & Shafii 2013). It was found that there are different approaches used by the councils in presenting their financial report (Md. Zain & Abdul Rahman 2006). In Malaysia, the discord in the administration of *waqf* may be stemmed from the dissimilarity of management in each SIRCs. The differences in the *waqf* administration has led to the disharmony of accounting and reporting practice including *waqf*. This may be influenced by the lack of central management and authority by the Federal government as well as the diverse *Shariah* opinions held by the each SIRCs. The recording and reporting for *waqf* differ in terms of the reference or guideline used in accounting for *waqf*, the recognition of the *waqf* asset, the valuation of the *waqf* asset, as well as the way SIRCs disclose and report their financial activities related to *waqf*. The diversity of accounting practices among SIRCs has become the main reason of different treatment in valuing *waqf* asset like land and building (Abdul Rahman et. al. 1999 & Hamdan et. al. 2013). Besides, *waqf* institutions are governed by different laws and regulations, the nature of the administration of these institutions may differ from one state to another and may lead to administrative problems (Hassan 2008).

The Lack of Central Management and Authority at Federal level

The central management and authority at Federal level is very essential to ensure the management and administration of *waqf* properties is in order, systematic and effective (Siti Rokyah 2005; Ihsan 2007). Masruki & Shafii (2013) suggest that JAWHAR uses reporting as a tool to measure the performance of *waqf* institutions and set up guidelines to be enforced and monitored at federal level. Nonetheless, JAWHAR currently plays its role as an advisor but has no enforcement power. The lack of central management and authority may be a cause of the discord and disharmony of accounting and reporting for *waqf* in SIRCs in Malaysia. According to Masruki & Shafii (2013), the lack of proper *waqf* recording and management of *waqf* asset is due to the lack of coordination of *waqf* institutions by the federal authority in Malaysia. Recognising the potential and role in the economic development of the *waqf*, the Government of Malaysia has established JAWHAR in 2004 to strengthen the *waqf* governance across the country, while *Yayasan Waqf Malaysia* (YWM) was established in 2008 acting as the lead agency in developing the *waqf* property. Both of these agencies have undertaken numerous initiatives including activities research, publication, coordination and development of *waqf* properties in throughout the country (Hasan et. al. 2015).

The SIRC is furnished with the authority to appoint any individual or a board to act as its representative to execute the administrative duties of the trusteeship of the *waqf* property. Under the provisions of 3 (2) of the Federal Constitution states that the king is as the head of the religious of the states that have the King and *Yang Di Pertuan Agong* as head of the states that do not have Sultan or King (Mat Rani & Aziz 2010). The administration of Islamic legal matters in Malaysia is upheld by the Federal Constitution. The Civil Law that is enacted at the state level should not contradict the Federal Constitution (Federal Constitution, Article 75). Though, any matters involving to the Administrative Affairs of Islam or Islamic law are placed under the jurisdiction of the State government. Only the Federal Territory is exempted from this ruling. The establishment of the SIRC

is an adviser to the Sultan, in matters relating to formulation of policies on Islamic affairs. The policy implementation is carried out by either the SIRC itself or Islamic Department of each state. These provisions provide the consequences in terms of the management of each state to formulate policies and activities at their own discretion include matters concerning to the *waqf*. This situation opens a space to the existence of management problems that vary from state to state for example the difference types of *waqf* being managed as well as the variation in terms of the *waqf* asset valuation period, recording and reporting treatments for *waqf* and so on.

Besides, the administration of affairs related to Islamic religion is governed separately in every state and is not standardised whether in legislation, management and implementation among the states in Malaysia (Sayin et. al. 2006; Mat Rani & Aziz 2010). Ismail et. al. (2015) suggest the role of Department of Awqaf, Zakat and Hajj (JAWHAR) to be strengthened to help, facilitate and complement the efforts SIRC has taken in improving the efficiency and effectiveness of *waqf* administration, management and development. Masruki and Shafii (2013) recommended that JAWHAR uses reporting as a tool to measure the performance of *waqf* institutions and set up guidelines to be enforced and monitored at federal level. Mohd Saharudin Shakrani et.al (2003) also suggest that there is a need to create a board at federal level which manages and report every information received from each states regarding *waqf*. This board also makes analysis about the economic development of the Muslim community as a whole and investment opportunities towards *waqf* properties that has potential to increase in value. This board also supervise matters pertaining to state *waqf*.

Diverse Shariah Opinion

Each states may have diverse *Shariah* views concerning *waqf* management and the need for a standardised *waqf* accounting and reporting. Every decision or ruling relating to Islam is seen as the sole authority of the states. It is placed under a body known as the National Council for Fatwa Committee of Islamic Religious Affairs Malaysia (*Jawatankuasa Fatwa Majlis Kebangsaan Bagi Hal Ehwal Agama Islam Malaysia*). At the state level, institutional *fatwa* is a legal entity other than the State Islamic Religious Council, State Islamic Religious Department, and Shariah Court granted recognition by each state's *Shariah* law (Dahlan et. al. 2014). A *fatwa* means a decision officially given by a Mufti or a *Shariah* State Committee published in the State Official Gazette. Once a *fatwa* is published in this fashion, it becomes binding upon all Muslims residing in the state (Buang 2002). The sources of *waqf* is derived from the *Al-Quran*, and *Assunnah* (hadith) as the main sources of the *Shariah*, the secondary source is derived from the human reasoning and interpretation (*ijtihad*) by the Islamic jurist which is known as *Ijma'* (the consensus among the Islamic scholars) and *Qiyas* (the opinion of individual jurist) (Yaacob 2013). Thus, the jurisprudence regarding *waqf* is based on *Ijtihad*. Malaysia basically takes after "*mazhab*" *Shafie* in the decision regarding *waqf*. However, certain SIRCs find the decision under the *Shafie* is excessively unbending hence restrain the improvement of *waqf* area. Accordingly, these religious councils adopt the rulings and the decisions from other "*mazhabs*, for example, *Hanafi*, *Maliki* and *Hambali* as they see fit for various circumstances. Thus, the diversification of *waqf* management and accounting practices among SIRCs might be influenced by the differences in the *Shariah* opinion held in each state.

The *waqf* legal problem of inconsistency between states has created the difference in the understanding, interpretation, procedures of *fatwas* decision and ruling. This stems from its *waqf* as other religious matters are under the jurisdiction of the state (Federal Constitution the Ninth Schedule list 2 (1) and no enactment specifically related to the management and the administration of *waqf* in the states except Selangor (Wakaf Enactment (Selangor), 15/2015), Negeri Sembilan (Wakaf Enactment Act 2005), Malacca (Wakaf Enactment Act 2005) and Perak (Wakaf Enactment Act 2005).

Act 2015). Thus, the enactment and Act on *waqf* seems narrow and volatile. The critical issues related to *waqf* actually stem from the government policies and the Malaysian Constitution itself which has been a part of religious institution management of each states (Mohamad Zaim et. al. 2015).

Different Legal Form of SIRC in Malaysia

Waqf institutions in Malaysia consist of different legal form of organisation. Some of the *waqf* institutions operates as an incorporated body of the SIRC for example *Perbadanan Wakaf Selangor (PWS)*, an incorporated body of Selangor SIRC. Meanwhile, the PWS has also established a subsidiary company namely *Urus Maju Ehsan Sdn Bhd*. The PWS and the subsidiary company may have different accounting and reporting framework for *waqf* from its parent (SIRC) due to the different guideline used in the preparation of accounts for *waqf*. Instead of following the parent, the PWS and subsidiary company may have different set of *waqf* account as the subsidiary company is subjected to relevant Malaysian Financial Reporting Standard (MFRS). This situation is common with the SIRC in Negeri Sembilan, which has established an incorporated private company namely *Perbadanan Wakaf Negeri Sembilan Sdn Bhd (PWNS)*. The PWNS was established in 2004 in order to manage all *waqf* in Negeri Sembilan and accounts will be consolidated with Negeri Sembilan SIRC (*MAINS*) at the end of the year.

Some of *waqf* institutions operate as a separate unit in SIRC for instance *waqf* institution in Pahang which is known as *Unit Saham Wakaf*, is a separate unit under the SIRC of Pahang. This unit will report its financial statement to the SIRC of Pahang to be consolidated with its SIRC account. The unit needs to disclose all activities and transactions related to *waqf* by preparing the report to their Head Office (Pahang SIRC), and related account (for examples collection of cash *waqf* as revenue) will be joined together in the finance department in Pahang SIRC. Whereas, there are *waqf* organisations act as a department in the SIRC normally the finance department. These finance departments will record all the transactions related to *waqf* for instance the collection of rental, cash *waqf* through the SIRC counter, special *waqf* administration. At the end of the month, the departments will prepare the report for each *waqf* account either separate reporting or combine reporting. The separate reporting means the *waqf* has its own accounts for example, *waqf* of a mosque, school or shop lot which have its own bank account and cash flow statements. The SIRC may have numbers of different *waqf* account, and present separately. The combine reporting is when the SIRC combine the *waqf* amount balance in the SIRC financial statements.

The Need for Standardisation of *Waqf* Accounting and Reporting

The revival of *waqf* institutions creates the need to establish good accounting system for these institutions. The absence of guidelines or standards on accounting for *waqf* generates the interest of few researchers to propose the relevance of *waqf* accounting so that transparency and accountability of *waqf* institutions could be assured. Accounting for *waqf* is a useful means to discharge mutawalli's (trustee) accountability in *waqf* administration and management (Masruki & Shafii 2013). Besides, accounting and reporting for *waqf* is very crucial to enhance the transparency and accountability of the *waqf* institutions due to the reason that *waqf* deals with the charitable assets which meant for public. Up to date, there is an absence of specific standard or guideline on accounting and reporting for *waqf* and no detailed information about the *waqf* assets being recorded. The different in accounting and reporting for *waqf* may create the issue of lack of transparency, accountability, efficiency and comparability as highlighted by previous scholars that suggested on the need for a standard of *waqf* accounting and reporting (Abdul Rahim et. al. 1999; Siti Rokyah 2005; Hisham

2006; Ihsan 2007; Mohd Nasir 2009; Ihsan & Adnan 2009; Ihsan & Ibrahim 2011; Daud et. al. 2012; Masruki & Shafii 2013).

Many scholars highlight on the need for a more reform and uniformity of *waqf* management and administration in Malaysia especially in the legal framework and financial aspects which include accounting and reporting practices. It is suggested that a standard law in relation to *waqf* be enacted and be adopted by each state so that there were uniformity in the law with regard to power and authority for the development of *waqf* property. According to Isa et.al (2011), up to this point, it is realised that *waqf* properties are under supervision of each State religious council. This will create a gap in *waqf* administration. To conquer this issue, perhaps there is a need to set up a *waqf* administration net that is effective for all states in Malaysia. The technique "Benchmarking" must be executed by the state *waqf* administration in different states all through the nation. It additionally can give more exposure and improve the quality of *waqf* administration.

Prior studies has indicated the importance of standard for *waqf* and provide the proposal for a good standard for *waqf*. However, here are lack of study that examines intensely and comprehensively on the similarities and differences exist in the SIRC's with regard to the accounting and reporting for *waqf*. Perhaps, it may be essential to initially explore the *waqf* accounting practices in all SIRC's in Malaysia before developing a standard that may be used by all SIRC's to achieve the standardisation.

The Development of State Islamic Religious Councils in Malaysia

In the early day, Muslims donated their *waqf* property to the village principle (*penghulu*) as their *waqf* trustee. Syed Abdul Kadir (2011) states that the *waqf* was managed by the community leaders like *kadis*, *imams*, *bilals* and *penghulus* in the early days. However, the records were only based on the verbal transactions. The problem happened when the *penghulu* died and other person took charge of the affairs, the descendants of the deceased "*penghulu*", sometimes ignore the declaration of the *waqf* property and used it as their own property (Yaacob 2013). Unfortunately, there are no legitimate written documents with respect to the primary establishment of *waqf* in Malaysia before the nineteenth century. The earliest written records that accessible were the *waqf* of Masjid Capitan Kling in 1801, and the *waqf* by a member from the Acheh royalty in Penang (Nasution 2002).

Nowadays, the development of productive *waqf* can generate income and increase the value of *waqf* assets. *Waqf* has become the model of Islamic economic development. Malaysia possessed a lot of *waqf* assets especially land and if being developed properly it may contribute positively to the development of Muslim. Isa et. al. (2011) indicates that there is an increase in total *waqf* land in Malaysia by the Muslims from time to time. In any cases, the issue in question is the amount of the *waqf* property that can completely advantage the local Muslim community (Arkib 2009). In 2014, the total estimated amount of *waqf* land has reached RM 1,177,084,450.59 as reported by JAWHAR. On the off chance that these *waqf* land are productively overseen and developed, they could yield billions of income to the Muslim community. Moreover, the huge value of *waqf* assets indicates the significance of *waqf* as a means for Islamic economic development and the need of proper *waqf* accounting and reporting by *waqf* institutions in Malaysia.

The SIRC's (*Majlis Agama Islam Negeri*) are religious institutions in this country that play important roles in developing and managing all *waqf* assets (Mat Rani and Aziz 2010). The purpose of the appointment of the council as the sole trustee of the *waqf* estate is to ensure that the *waqf* managed and well-administered efficient in generating substantial revenue for the welfare of the people. There are 14 State Islamic Religious Councils in Malaysia with each targeted of making the administration of *waqf* efficient and effective for the benefits of the society. Although *waqf* has long

been undertaken by the Muslims in Malaysia, the institutionalised management of *waqf* only came about in 1952 when express powers to manage matters relating to *waqf* was granted to the State Islamic Religious Councils (Mohamad et al. 2012). The administration of *waqf* is under the power of the State Islamic Religious Councils which having their own particular offices and units do the management of the *waqf* property for the advantages of the beneficiaries named in the *waqf*. Albeit the increasing emphasis on the standardisation of *waqf* accounting and reporting in SIRC, it seems that there are certain constraints and obstacles existed in these Malaysian *waqf* institutions in order to adopt a similar accounting and reporting framework. Due to the nature of *waqf* administration is regulated through various states law or enactment, where each SIRC is directly under the supremacy of each states' ruler (Sultan). Every decision made to the SIRC is subjected to their Board and Fatwa committees' approval. For example, the investment of *waqf* land also adheres to the roles play by the National Fatwa Committees. Any issues involved in the investment plan project and *waqf* affairs shall be referred to the respected fatwa committees. Thus, this paper explores the *waqf* accounting and reporting practices in eleven SIRC in Malaysia in order to provide better insight on the constraints and obstacles existed in each states *waqf* institution.

Research Method

This paper carries out the positivist comparative case studies inspired by Yin (1994; 2015), Eisenhardt (1989), Miles and Huberman (1994; 2014) and few other scholars who are strong proponents of and have wide practice in the research approach. This exploratory case study based on multiple case study is aimed at defining questions in order to provide deeper understanding on the current accounting and reporting in *waqf* institutions in Malaysia. Yin (1994) explains that the case study research strategy is most likely to be appropriate for "how" and "why" research questions. As for this paper, the research questions are how does *waqf* institutions record and report transactions related to *waqf* and why the accounting and reporting for *waqf* do differ. Out of the fourteen SIRC in Malaysia, only eleven SIRC were selected based on the convenience sampling. Those selected SIRC are situated in Peninsular of Malaysia excluding Sabah and Sarawak and one SIRC rejected to be interviewed. The finance managers or accountants who are directly involved in accounting and reporting activities including on *waqf* from each SIRC were interviewed to obtain the information and answer the research questions developed in this study. Besides, the researcher also collect data in the forms of documents like the related manual guideline, financial reports and statements of the SIRC in order to get the understanding on current *waqf* accounting and reporting practice in SIRC. In order to ensure the reliability and validity of the analysis and findings of the questionnaire survey, a semi-structured interview by face to face was chosen. The interview transcripts were developed and emailed to the participants again to verify the information and data gathered from the interview. The adoption of multiple data sources is an attempt to ensure the reliability and the validity of the interview findings. Part of the financial statements and reporting were collected by the researcher for the purpose of validating the data.

The data analysis also involves a process known as coding. Conceptualising, reducing, elaborating and relating are referred to coding (Miles and Huberman 1994 & Strauss and Corbin 2008). In qualitative research, coding represents another tool to support researchers during early analysis. The coding scheme is used to organize segments of similar or related text for ease in interpretation and to search for confirming/disconfirming evidence of these interpretations. Coding itself can be performed with the help of a specialised computer program which makes the sorting, cutting, and pasting operations more efficient (Weitzman 2000). The researcher also uses the ATLAS.Ti software to facilitate the process of coding and analysing the data.

Findings & Analysis

Accounting and Reporting of Waqf

Thematic analysis (Braun & Clarke 2006) of the response demonstrates that the existing treatment for accounting and reporting for *waqf* is inconsistent. The inconsistency can be observed in terms of different types of *waqf* management, the recognition of *waqf* asset (cash, land and building), measurement or valuation of the *waqf* asset as well as reporting and presentation. For *waqf* institutions like SIRC, there are two types of *waqf* available which is general *waqf* (*wakaf am*) and specific *waqf* (*wakaf khas*). However, not all SIRC have specific *waqf* and study found all of *waqf* institutions has the general *waqf* (*wakaf am*) but not all *waqf* institutions have the specific *waqf*. This is because the complication in managing the specific *waqf*. The following statements provide the evidences on why this situation occurs in SIRC.

“So far, our *waqf* institution is not yet towards the specific *waqf* (*wakaf khas*). Perhaps, we are looking into few considerations regarding the *waqf* asset that is not suitable for the purpose of specific *waqf*. For example, those who aims to donate their land but their intention for the specific purpose is not suitable to be implemented. Let say, this land is donated for the mosque construction, while, there is an existing mosque built near the *waqf* land. This is a reason that I understood why our organisation is more focusing on general *waqf* rather than specific *waqf*” (P18)

“We now do not take special *waqf* as it is quite complicated and involves a lot of charitable recipients from generation to generation. Rather difficult.” (P13)

The management of specific *waqf* is not suitable for the specific requirement made by the donor and the impossibility of the requirement to be made. Besides, the difficulty of the specific *waqf* management may be the nature of the specific *waqf* which sometimes the SIRC cannot fulfil the requirement made by the donor due to the certain circumstances.

With respect to the capitalisation of asset, according to the Enactment Act of the SIRC, the SIRC play its role as a trustee of the *waqf* asset and not as the owner. Thus, this restriction prevents the SIRC to capitalise the *waqf* asset and present it in the financial statement.

“SIRC is not the owner of the asset and SIRC is just a trust holder (trustee) in Section 61, and until now we didn't record the asset of *waqf*, we only proclaim it in Section 68. In terms of accounting asset is only recorded when we own the asset”. (P4)

“We will only make valuation to the land that will be developed. The value will be recognised as an asset. But there is also assets that we do not capitalise them but we put as a token rm10. We recognise as asset if we get the title transfer”. (P13)

Recognition of Waqf Asset

Some of the SIRC present their *waqf* asset with the nominal value. Meanwhile others do not. The reason behind the recognition of *waqf* asset with nominal value is actually to indicate the existence of *waqf* asset like building and land. However, the actual value is not identified and unknown. This is because the SIRC did not make valuation of asset. And if the valuation is made for few SIRC, the

reevaluation is not done yearly. This may incur high cost for SIRC to make reevaluation and the SIRC cannot bear the cost of the assets. Limited funding is also among the main causes that hinders the development of *waqf* land (Mohamad et. al. 2012).

“We put the value of RM1 so that we can see those *waqf* land.” (P1)

“Only RM1.00 to simply describe the *waqf* land is there” (P9)

“Sometimes in *waqf* building is a dilapidated house but partially rated as RM1 to indicate the presence of the endowment assets.” (P20)

Normally, the SIRC will only list their *waqf* asset like land and building without value or with the value at the time of submission.

“If there is value given together with asset of *waqf*, we will put the figure together in the Balance Sheet. If given to us without value, we will take it out to notes to account. As we have few categories for example Mosque, small *Musalla*, school site, and general *waqf*. If a house we put it under general *waqf* (*wakaf am*).” (P2)

Some of the SIRC did not recognise the *waqf* assets at the nominal value because the participants view that the value of RM1.00 does not reflect the actual value of the *waqf* assets. Thus, there is no point for the accountants to recognise the *waqf* asset at the nominal value as indicated by other participants of different SIRC.

In term of recognition of cash *waqf*, there are two different treatment of provided by these SIRC. Firstly, *waqf* assets in terms of cash of SIRC is recognised as *Amanah* Account which is considered as the liabilities of SIRC. This cash *waqf* is recognised as a liability as the SIRC are holding a trust in terms of cash. This money will be used to distribute to the beneficiaries and etc. The SIRC consider themselves as having responsibilities that must be implemented.

“Yes, as we regarded *waqf* as *Amanah* Account. Before 2003, we used to hold it as in Profit and Loss Account, but when we have looked and discussed again. We change the treatment of *waqf* to *Amanah* Account, and Fatwa also decided so. Thus, we made the changes all *waqf* asset as *Amanah*. No more P&L.” (P2)

SIRC that collect cash *waqf* and recognise it as SIRC revenue and present in the Profit and Loss Account. However, the *waqf* account (revenue) of *waqf* unit will not be included in the accounts of those SIRC. This *waqf* has its own bank account.

“*Waqf* account is not included in the accounts of parents. He's got his own bank. We have a *waqf* trust fund *Tabung Amanah Saham Wakaf* and yet the *Tabung Dana Wakaf*. For this money will not mix up with the money of zakat and *baitulmal*. Indeed separately.” (P8)

“the treatment for cash *waqf* is crediting the sales revenue. The collection will be accounted as revenue. So far, we have some collection but not so many as we have just started the system of *Dana Wakaf*...” (P6)

Thus, the concept of cash *waqf* is treated as a liability is totally different from the concept of cash *waqf* as a revenue. If the cash *waqf* is recognised as an *amanah* account, the movement of the money can be revised and the SIRC is liable to hold the money for certain *waqf* project. However, if the cash *waqf* is recognised as sales revenue, the money will be set off and SIRC will lose the money.

Measurement or Valuation of Waqf Asset

The revaluation of asset was done for instance Kelantan, which value their *waqf* asset one in five years. Meanwhile, Terengganu and Johor decide to make valuation of *waqf* asset when they feel necessary to do so and some do it when the *waqf* asset is ready to be developed. Hence, five of the SIRC did not make any revaluation. From the analysis conducted, most of the SIRC do not value their *waqf* assets like land and building. The *waqf* assets are not capitalised, the value and the land area is unknown. However, when the asset is developed, some SIRC do value the asset and present it in the SIRC account. For the purpose of capitalisation, SIRC must obtain the title of the land before the SIRC can report their *waqf* asset in the financial statement.

“Yes, we will value the *waqf* asset. Examples, at first, we enter the token RM10, the land that we made construction. Let say, the cost of construction was RM 3 million excluding the value of RM 10. Until the building is completed, I will send it to *Jabatan Penilaian Hartanah Malaysia* next year to make a revaluation. Next year, then I can report how much the cost of land, cost of the building.” (P13)

“If we follow the audit, we revalue once in 5 years unless the land is for sale. For reporting purposes, we will value the asset for 5 years.” (P5)

“Like I said, until now, we are unclear as to determine whether the value of the property donated, whether current value or no value which as a token of RM1.00 in the financial statements. For example of the special *waqf*, although MAIK administer, MAIK does not have the power except for the will. Because that asset is not our wealth either.” (P5)

The participants indicated different approaches of *waqf* asset valuation treatment. The value of the *waqf* assets also differs as some SIRC value as nominal value of RM1.00 or RM10 upon existence and some do not value at all. The challenges of the SIRC in the process of valuation is the uncertainty in recording the *waqf* asset whether recognising it at market value or nominal value. The study of Mustaffha and Firdaus Zainal (2016) reported earlier that SIRC still have improper accounting records regarding *waqf* assets. They have not properly recorded comprehensive assets listings, their current value and *waqf* accounts.

Disclosure and Presentation of Waqf

Majority of the SIRC provide the listing of all *waqf* assets with and without value depending on the SIRC's requirement. The disclosure of the *waqf* asset is not revealed in the financial reporting. However, the presentation of *waqf* asset only be made for *waqf* asset that is owned by the SIRC through purchase. Besides, there are few SIRC prepare the assets listing in the notes to account and some do not. Thus, it was found that the format of *waqf* reporting varies among SIRC. The SIRC in Malaysia also have different ways of disclosing and reporting their *waqf* assets. For example, the SIRC

of Terengganu, Kelantan and Pahang, do not separate the *waqf* related activities or transactions from the account of the SIRC. This means at the end of year, the *waqf* assets and revenues, liabilities and expenses related to *waqf* are added to the account of the SIRC. Prior study indicate that majority of SIRC did not separate its *waqf* account (Ihsan & Ibrahim 2011). Whereas, few SIRC or *waqf* units has its own financial reporting specifically for *waqf* which are later consolidated in the SIRC reporting which is known as *Kumpulan Wang Wakaf* like SIRC of Selangor, Johor, Wilayah Persekutuan and Negeri Sembilan.

“In this state council, we have 5 different funds that we maintain which are the collection of zakat fund (*Kumpulan Wang Wakaf*), group of wakaf fund (*Kumpulan Wang Wakaf*), general resource group (*Kumpulan Sumber Am*), group of grant fund (*Kumpulan Wang Geran*), and group of special fund (*Kumpulan Wang Khas*). Each of these fund groups has a full set of accounts.” (P4)

“each *waqf* has its own full set of account.” (P1)

“The *waqf* is console in the SIRC’s Fund Account except for our main special the musolla of *Ahmad Dhawjee Dhadhaboy*, our special *waqf* (*waqf khas*) which is a joint venture project, we as a trust holder, we provide its own full set of account and we have few committees for that special *waqf* and present it separately from the SIRC’s financial report.” (P4)

Based on table 1.1, there are SIRC like Johor and Terengganu that provide their own manual for financial management including *waqf*. For instance Johor, they follow the best practice of Auditor’s general and JAKIM produced in 2002 and revised their accounting treatment and develop their own manual known as *Tatacara Pengurusan Kewangan*. Although there are evidences that *waqf* institutions already adopted the PERS standard set by MASB, they still have improper accounting records regarding *waqf* assets. For instance, they have not properly recorded comprehensive assets listings, their current value and *waqf* accounts (Mustaffha et. al. 2016). The financial reports and presentation with regard to *waqf* are being formatted by the accountant of the SIRC, as he is responsible for the presentation of the *waqf* financial statements. The researcher interprets that when the participant states the financial procedures are adapted from the best practices however it is still an optional as he can decide what would be the accounting treatments where he think appropriate

“Yes, because now we have audited financial reports, the operation needs to have an AI (Accountability Index) that every 3 years, the National Audit Department is coming. Then we have our own Internal Audit and MAIS Internal Audit. Our financial procedures are much adapted from Best Practices and where we think appropriate to be used.” (P14)

“That time I had an experience at the audit firm, I used to do this with another company, so I used my experience working in the audit firm, and apply it in this SIRC.” (P4)

Table 1.1: SIRC References

References	States
1. SIRC Manual	Terengganu & Johor
2. Best practice of SIRC	PWS Selangor
3. MPERS	Pahang (HQ), Perak, Wilayah Persekutuan, Pulau Pinang
4. MFRS	Kelantan, Pahang (unit <i>waqaf</i>), UME (Subsidiary of PWS MAIS), Perlis
5. Best Practice of JAWHAR	Kedah, Negeri Sembilan

Based on the table above, all SIRCs used the references stated but after that, there will be changes and adjustments where appropriate to fit the SIRCs nature and operation. The procedure may also change from time to time due to the government circular and Board and Fatwa decision. The changes of the procedures and the issuance of government circular to the SIRCs as well as the approval and decision from the fatwa councils become the major factors of the different accounting and reporting treatment for *waqf* institution in Malaysia.

Discussion - Divergence of Waqf Accounting and Reporting Practices

From the analysis conducted, the diversification of the accounting and reporting for *waqf* is clearly stated by the examination of the *waqf* accounting treatments in terms of recognition, measurement and disclosure of the *waqf* assets. The availability of different optional guidelines and reference used by these SIRCs reflects the different treatments and reporting of *waqf*. These was due to the nature of the SIRCs which operate as different legal form of entity. *waqf* may be organised by an incorporated body of the SIRC, *waqf* organisation by a separate unit of the SIRC as well as *waqf* organisation by a department in the SIRC itself. Most of the SIRCs used the MPERS as their main guideline and, some of the SIRCs have referred to the own manual of financial managed developed by those SIRCs and one that is private company is subjected to the Malaysian Financial Reporting Standard (MFRS). Because of the optional decision to use the references and guideline available, the SIRCs' accounting and reporting treatments vary and inconsistent among each other's. The optional adoption of available guideline, may result in different treatment of *waqf* related activities and contribute to the diversification of *waqf* accounting and reporting practice among the SIRCs in Malaysia. Mohamed et al. 2006 highlight the problem of non-standardisation in preparing the financial reports and different *waqf* institution has its own accounting and reporting practice. Ibrahim (2001) found that different *waqf* councils use different valuation method. Besides, there are different approaches used by the councils in presenting their financial reports (Md. Zain & Abdul Rahman 2006).

Besides, the central management and authority at Federal level is still minimal due to the dominant control of the SIRCs' council and Fatwa member on the financial and non-financial decision related to *waqf* fund of SIRCs. Any Islamic matters related must be endorsed in the Board Councils meeting and must attain the approval from the Fatwa Councils which become the main source and factor of the lack of federal central management and authority. The role of fatwa councils is important to most of SIRCs on certain procedures for example the capitalisation and valuation of *waqf* assets. Some fatwa councils do not allow the *waqf* assets like land and building to be valued or revalued as the *waqf* asset is not under SIRCs possession. The capitalisation of assets of *waqf* is not allowed as it contradicts with the State Enactment Act that states the role of SIRC as a trustee holder. Until now, there is conflict in term of recognition of cash *waqf* where some SIRCs recognised cash donated for the purpose of *waqf* as a liability under the *Amanah* Account. Whereas, there are SIRCs which recognise the cash *waqf* as a revenue. Thus, each states Islamic religious council has the different

states fatwa committee which their fatwas decision on Islamic matters related to *waqf* may vary especially on matters that are not explicitly in the Quran or hadith by the Prophet but involving the discussion of *fiqh*. Mat Rani (2015) indicates that the Committee or State Fatwa Council shall serve the determination of fatwa by taking into account the environment and current needs, which is also known as the contemporary fatwa for example in the case of repossession of *waqf* land by the government which must meet the goals and interests of the public. As a result, the different *shariah* opinion and *fatwa* decision concerning *waqf*-related matters drive the diversification of the accounting and reporting for *waqf* in SIRC in Malaysia.

To conclude this paper, although there are significant differences in *waqf* accounting and reporting practices are noted and the calls towards a standardised *waqf* accounting and reporting become rigorous, certain areas still need improvements especially on the education, qualification and the experience of *waqf* managers like staff training and conference to give the awareness on *waqf* accounting and reporting standard as well as on the importance of harmonisation of *waqf* accounting and reporting practice for the benefits of the *Ummah* as a whole. Besides, the harmonisation of *waqf* accounting and reporting practice may be achieved by initially considering the issues and problems faced by the *waqf* managers in each states in managing and administrating the *waqf* assets. The response and readiness of the institutional *mutawwali* towards a standardised *waqf* accounting and reporting may be useful and important aspect to be focused on in the efforts of the standard adoption realisation. Thus, further study is necessary to understand the pressures exerted in *waqf* institutions in Malaysia with respect to the development of accounting and reporting for *waqf* and the consensus of all SIRC in Malaysia may be deemed necessary to ensure the implementation of the potential standard of *waqf* accounting and reporting be successful and realised.

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