

Critical Success Factors, Benefit, and Auditing of Waqf Accounting

Nurul Fadly Habidin^{1*}, Mohd Yahya Mohd Hussin², Fidlizan Muhammad³, Sharul Effendy Janudin⁴, and Nursyazwani Mohd Fuzi⁵

^{1*}**Corresponding Author:** Nurul Fadly Habidin

E-mail: fadly@fpe.upsi.edu.my

^{1*,2,3}Department of Management and Leadership, Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, 35900 Tanjung Malim, Perak, Malaysia

^{4,5}Department of Accounting and Finance, Faculty of Management and Economics, Universiti Pendidikan Sultan Idris, 35900 Tanjung Malim, Perak, Malaysia

DOI: 10.6007/IJARBSS/v7-i4/2925 URL: <http://dx.doi.org/10.6007/IJARBSS/v7-i4/2925>

Abstract

The aim of this study is to identify the critical success factors, benefits, and challenges of waqf accounting in corporate Malaysia and to test the propose model of waqf accounting. This paper is to identify five dimensions of CSFs of waqf accounting (accounting procedures and standards, accountability, fund waqf, cash waqf, and financial report disclosures). This paper is also to identify five benefits of waqf accounting (financial growth, efficiency of waqf management, customer satisfaction, quality improvement, and trustworthiness). Meanwhile, three challenges of waqf accounting (waqf administration, unqualified mutawalli, and lack of Islamic accounting). Therefore, this study is focused on the critical success factors, benefits, and challenges of waqf accounting in corporate Malaysia and to propose the model of waqf accounting.

Keywords: Critical success factors, auditing, waqf accounting, corporate, Malaysia

Introduction

Waqf in Malaysia has attracted the interest of researchers to improve financial management. There have been suggestions from researchers to enhance the functions of waqf into financing management (Siraj, 2013; Thaker, Mohammed, Duasa, & Abdullah, 2016). This is because the management of waqf can improve the efficiency and effectiveness in implementing waqf in organizations. Management of waqf has to emphasis on the accountability and transparency. Elements of waqf accounting and reporting may be considered as a good system in improving the accountability and transparency of the organization. Accounting and reporting practices of the transaction is difficult to be obtained due to a variety of accounting reports in waqf. Thus, the objective of this study is to assist the waqf corporate in Malaysia for providing the information of the organizations.

One of the waqf developments in corporate Malaysia is Jcorp Waqaf An-Nur Corporate Berhad. Waqaf An-Nur Corporation Berhad (“WANCorp”) is a Limited by Guarantee Company for managing the assets and shares for waqf. In addition, WANCorp plays the role of shares and

other forms of company securities collectively allocated into waqf and contributions to the society for welfare allocations. Thaker and Hassanudin (2015) stated that Waqf An-Nur Corporation Berhad provides such as mosques, surau, clinics, hospitals and dialysis centers. Furthermore, Waqf An-Nur Corporation Berhad also provides Dana Waqf Niaga in providing interest free loan to assist the small businesses.

Waqf development in UDA Holdings Bhd has launched subsidiary UDA Waqf Sdn Bhd to develop wakaf land in Malaysia as part of the company's effort to ensure growth and diversification of waqf assets. Waqf is a voluntary charitable endowment in the form of cash or property or land. Thus, UDA Waqf Sdn Bhd is to develop over 10,120ha of waqf land in Malaysia with potential to be converted into commercial as well as residential projects. In waqf Selangor Muamalat, waqf funds are channeled to allocated waqf projects in the organization. Further, Maybank Islamic Berhad provides capital to the funds for investment purpose with the Federal Territory of Malaysia Islamic Council (MAIWP) to set up RM20mln Waqf Seed Fund. Also, the bank will provide capital to the funds to be invested into various investment portfolios where MAIWP acts as its trustee. This initiative is to support in order to achieve financial growth. University College INSANIAH (KUIN) will collaborate to realize the INSANIAH Waqf Fund project. The purpose of this project is to develop a mosque in KUIN in Kedah. Therefore, waqf has potential of waqf value creation for waqf development in corporate Malaysia.

According to Malaysian Accounting Standards Board (MASB) (2014), there are some issues about waqf mainly in accounting issues. One of the issues is most states do not have the enactments relating to waqf to present a complete set of separate financial statements. However, the Board of Directors suggested that a specific waqf should prepare and present a full set of separate financial statement. This is because management of waqf can report entity for managing economic activities that are interest to the public.

Another issue is waqf can be consolidated with Mutawalli. According to accounting perspective, the financial statements of a waqf can be consolidated with its Mutawalli if the Mutawalli controls the waqf. However, the Board of Directors mentions several state enactments require the State Islamic Religious Council (SIRC) to recognize waqf funds in the financial statements. On the other hand, if the control is not present and not required of consolidation, Mutawalli still required disclosing information of waqf and information is important to users.

Third issue is the appropriate financial reporting framework for waqf. The financial reporting framework of waqf depends on its legal form. According to the Board's findings, the applicable financial reporting framework for waqf in Malaysia as follows; waqf administered by a SIRC. SIRC's report on financial reporting by applying MASB accounting standards in accordance with federal or state directives, waqf administered by IPTA, waqf that is an incorporated company need to comply with MASB accounting standards, and waqf that takes on other legal forms need to comply with the relevant framework. Thus, a waqf should comply with the financial reporting framework prescribed by regulations.

Fourth, the issue of accounting is the appropriate measurement basis or bases for the assets and liabilities of a waqf. The appropriate measurement basis for the assets and liabilities of a waqf is primarily real property. The assets and liabilities need to present in financial

statements. For example, property, plant and equipment (PPE) and investment property (IP) can be measured at cost on initial recognition and it depends on the financial reporting standards. Besides, for heritage assets has the option to either not recognize as a heritage asset, or to depart from the measurement requirements for property, plant and equipment. Lastly, the issue of accounting is the disclosure needed by users of a waqf's financial statement. The suggested disclosures may be considered including in their financial statements. In addition, users of the financial statements may wish to know the location, size and fair value of real property, or administration fees are paid to the Mutawalli. Thus, it should disclose such information to users and it is important to present a waqf's financial statements.

Regarding to accounting issues of waqf, this study is attempt to identify the critical success factors, benefits, and challenges of waqf accounting and to test the measurement model of waqf accounting for waqf corporate in Malaysia.

Literature Review

Critical Success Factors (CSFs) of Waqf Accounting

Through a better understanding of these issues and to ensure successful implementation of the waqf accounting in enhancing performance, Critical Success Factors (CSFs) as well as the benefits and obstacles of waqf accounting should be determined to assure the operations to run smoothly and contribute to improve the performance. Meanwhile, there are an increasing number of empirical researches in identifying the level of benefits and obstacles in implementing waqf accounting initiatives (Masruki & Shafii, 2013). Therefore, due to the waqf implementation is still lack in Malaysia, the investigation of the benefits and obstacles in waqf accounting is important to be identified.

Waqf accounting can improve transparency and accountability of waqf institutions in Malaysia. Ihsan et al. (2006) support the issues of transparency and accountability in waqf institutions is lacking. Based on this, they found that there is lack of accountability and transparency in waqf accounting. This is supported by Masruki and Shafii (2013). There is also lack of management by the Mutawalli in administering waqf. Besides, Marsoof (2004) noted that the improvement in accounting procedures is significant element of waqf institutions. The author suggested for developing accounting procedures and standards for waqf accounting.

Another of CSFs waqf accounting is to identify the cash waqf. Hosseini, Salari, and Abadi (2014) noted that cash waqf can use as a waqf accounting instrument. Cash waqf has advantages to all parties, including the financial institutions, investor, and communities. Thus, cash waqf can be a source of financing for investment. In addition, the status of financial reports and determined the level of waqf disclosure by SIRC in Malaysia is still lacking (Siraj, 2013). This is because waqf's financial statements and is significant to disclose to users in waqf accounting. Study by Hamdan, Ramli, Jalil, and Haris (2013), there is no systematic accounting system practices in managing the funds of waqf. This is because the treasurers had limited knowledge in financial reporting. Hence, fund waqf is important to this study to resolve the waqf accounting issues. This study, thus proposes that five dimensions of CSFs of waqf accounting consists of accounting procedures and standards, accountability, fund waqf, cash waqf, and financial report disclosures.

Benefits of Waqf Accounting

According to Masruki and Shafii (2013), accounting is the most appropriate to increase transparency and accountability of waqf institutions. For instance, improve regulatory, enhance governance, and improve accounting and reporting standards for waqf accounting by involvement of the Accounting and Auditing Organizations and the Malaysian Accounting Standard Board (MASB) can apply in waqf corporate in Malaysia. Besides, the implementation of waqf accounting can be considered as guidelines to ensure the financial growth in waqf corporate in Malaysia. Therefore, waqf corporate in Malaysia can increase transparency and accountability in order to improve the financial growth in the organization.

In addition, waqf accounting approach has the advantage to bring more focus on financial growth, efficiency of waqf management, customer satisfaction, quality improvement, and trustworthiness (Ihsan & Ibrahim, 2011; Osman, Htay, & Muhammad, 2012; Suhaimi, Rahman, & Marican, 2014). Thus, this study focused on benefits of waqf accounting in order to address accounting issues in waqf corporate in Malaysia.

Challenges of Waqf Accounting

There are several barriers and challenges of waqf accounting. According to Chowdhury, Chowdhury, Muhammad, and Yaso (2015), one of the challenges of waqf accounting is waqf administration in Malaysia. Another issue is the Mutawalli involved the waqf assets are unqualified in managing waqf accounting. This is because Mutawalli can manage a waqf asset in utilizing the asset with trustworthiness. Besides, another problem related with the waqf accounting is not complying with the Islamic accounting norms. Other notable problem is lack of management systems. Therefore, there is a gap in waqf accounting implementation and the aim of this study is to identify the critical success factors, benefits, and challenges of waqf accounting and to test the measurement model of waqf accounting for waqf corporate in Malaysia.

Research Methodology

Population of this study comprised on waqf institution in Malaysia. The respondents are accountants or assistant accountants, accountant executives, administrative officers of waqf, financial officers, and waqf clerks. A set of survey questionnaire is designed to ensure most of the issues concerning on waqf accounting in corporate Malaysia. In this study, the Statistical Package for the Social Sciences (SPSS) version 21.0 will use to analyze the preliminary data and provide descriptive analysis such as means, standard deviations, and frequencies.

Besides, Structural Equation Modeling (SEM) techniques are utilized to perform statistical analysis of the data from the survey. AMOS 21.0 will used to test the measurement model. AMOS uses the basic overall goodness-of-fit measures to assess the compatibility of the proposed model with the observable data. Meanwhile, for factor analysis such as Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) are used to examine the constructs in this study. Therefore, this study propose to identify the critical success factors, benefits, and challenges of waqf accounting and to test the measurement model of waqf accounting for waqf corporate in Malaysia. Figure 1 presented the proposed conceptual model.

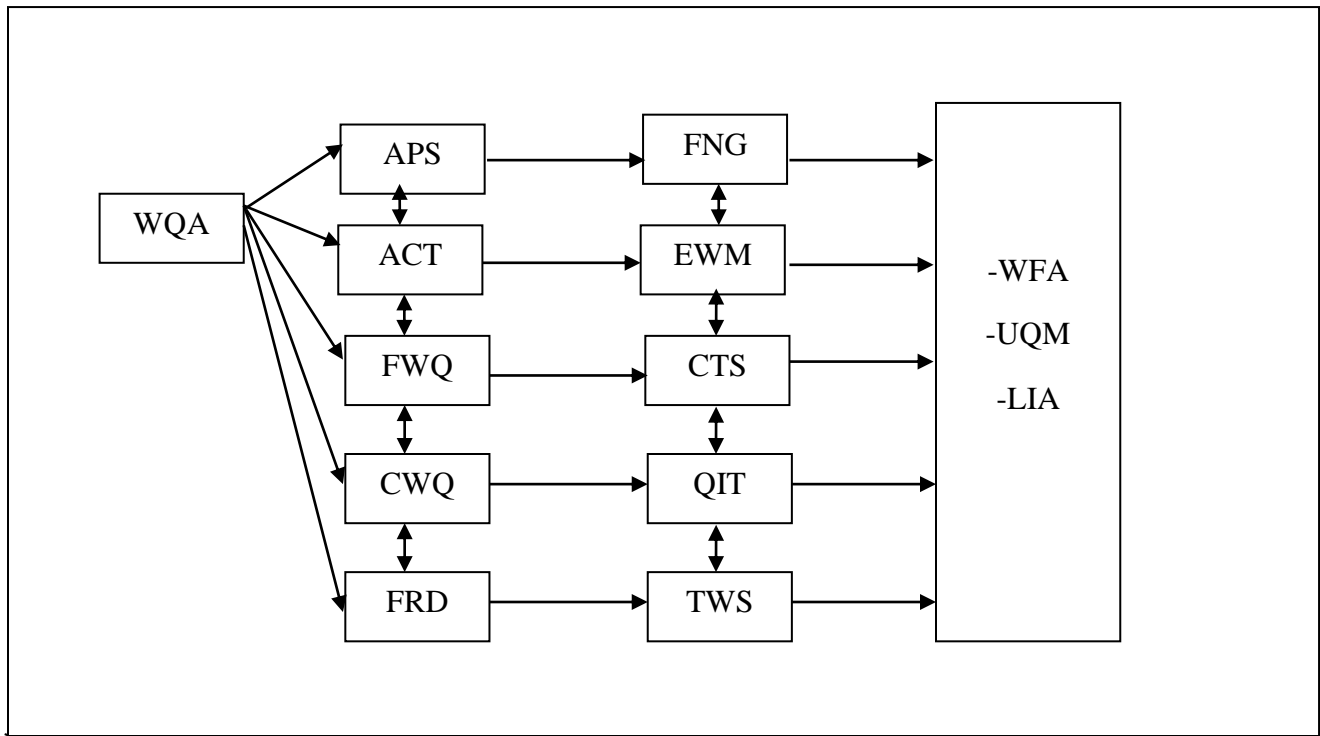


Figure 1. The Proposed Conceptual Model

Notes: WQA=Waqf Accounting, APS=Accounting Procedures and Standards, ACT=Accountability, FWQ=Fund Waqf, CWQ=Cash Waqf, FRD=Financial Report Disclosures, FNG=Financial Growth, EWM=Efficiency of Waqf Management, CTS=Customer Satisfaction, QIT=Quality Improvement, TWS=Trustworthiness, WFA=Waqf Administration, UQM=Unqualified Mutawalli, LIA=Lack of Islamic accounting

Conclusion

The aim of this study is to identify the critical success factors, benefits, and challenges of waqf accounting in corporate Malaysia and to test the propose model of waqf accounting. By implementing the instruments of waqf accounting, it can assist the waqf institutions to improve the financial accounting and reporting for waqf corporate in Malaysia.

Acknowledgement

The researchers also like to acknowledge the Ministry of Higher Education (MOHE) for the financial funding of this research thought Fundamental Research Grant Scheme (FRGS) and Research Management Innovation Centre (RMIC), UPSI for Research University Grant (RUG).

References

- Chowdhury, M. S. R., Chowdhury, I. A., Muhammad, M. Z., & Yaso, M. R. (2015). *Problems of waqf administration and proposals for improvement: A study in Malaysia*. Retrieved from <http://www.icommercecentral.com/>
- Hamdan, N., Ramli, A. M., Jalil, A., & Haris, A. (2013). Accounting for waqf institutions: A review on the adaptation of fund accounting in developing the shariah-compliant financial reports for mosque. Paper presented at the *World Universities' Islamic Philanthropy Conference 2013* (WIPCON 2013), 4 & 5 December 2013, Menara Bank Islam.
- Hosseini, S. M.S., Salari, T. E., & Abadi, S. M. N. Z. (2014). Study of cash waqf and its impact on poverty. *Atlantic Review of Economics*, 2, 1-19.
- Ihsan, H., & Ibrahim, S. H. H. M. (2011). Waqf accounting and management in Indonesian Waqf institutions: The cases of two Waqf foundations. *Humanomics*, 27(4), 252-269.
- Malaysian Accounting Standards Board (MASB). (2014). Retrieved from <http://www.masb.org.my>
- Marsoof, S. (2004). Awqaf experience in Sri Lanka. *Awqaf*, 6, 1-32.
- Masruki, R., & Shafii, Z. (2013). The development of waqf accounting in enhancing accountability. *Middle-East Journal of Scientific Research*, 13, 1-6.
- Osman, A. F., Htay, S. N. N., & Muhammad, M. O. (2012). *Determinants of cash waqf giving in Malaysia: Survey of selected works*. Retrieved from <http://irep.iium.edu.my/>
- Siraj, S. A. (2013). *An empirical investigation into the accounting, accountability and effectiveness of waqf management in the State Islamic Religious Councils (SIRCS) in Malaysia* (Doctoral dissertation). Cardiff University.
- Suhaimi, F. M., Rahman, A. A., & Marican, S. (2014). The role of share waqf in the socio-economic development of the Muslim community: The Malaysian experience. *Humanomics*, 30(3), 227-254.
- Thaker, M. A. M. T., & Thaker, H. M. T. (2016). Exploring the contemporary issues of corporate share waqf model in Malaysia with the reference to the Waqaf An-Nur Corporation Berhad. *Journal of Management*, 45, 1-13.