

## **INTERNAL CONTROL ISSUES IN WAQF MANAGEMENT: INSIGHTS FROM THE LITERATURE**

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### **ABSTRACT**

Internal controls establish a process on how an organization handles in receiving and reporting money and, administrative and management tasks. An effective internal control involves the control environment, risk assessment, control activities, information and communication and the monitoring activities. The purpose of this paper is to explore the internal control issues of waqf management and administration in waqf institutions globally. This paper elaborates the insights gained from previous research papers on internal control aspects of waqf institutions and the area that need attention for betterment of waqf management .

**Keywords:** *Internal control, waqf management, waqf issues.*

### **1. INTRODUCTION**

Internal control is an integrated part of the organization's systems of governance and risk management. According to International Federation of Accountants (IFAC) internal control can be defined as 'an integral part of an organization's system of governance and ability to manage risk, which is understood, effected, and actively monitored by the governing body, management, and other personnel to take advantage of the opportunities and to counter the threats in achieving the organization's objectives (Tophoff, 2012).

There are four internal control system components and standards which consist of control environment, communication, assessing and managing risk, control activities and monitoring (<http://www.newpaltz.edu/internalcontrols/>). Most of the organization needs to evaluate their internal control system to provide reasonable assurance in achieving the organization's objectives and missions. Non-profit organization is not excluded especially those organizations which are accountable to the funder and the public like zakat and waqf institutions.

Waqf institutions are institutional trustee that are accountable for the management of waqf properties based on pre-established expectations which expresses through the waqf deed by the waqif -donor or funder (Sulaiman & Zakari, undated). While waqf is defines as holding certain property and preserving it for the confined benefit of philanthropy and prohibiting any use or disposition of it outside its specific objective (Kahf, 2003)

The motivation of this preliminary study was due to few recent studies shows that there are lacking of internal control mechanism in certain areas of waqf management and administration especially in Malaysia and Indonesia (Mohd Ali et al, 2016), Mutalib & Maamor, 2016), Chowdhury et al, 2012, Shafii & Masruki, 2013). Thus, this study intends to emphasize which part of management and administration of waqf institutions that are lacking of internal control thus need a serious attention for improvement.

To achieve the objective of this study, the researchers will apply Systematic Literature Review (SLR). Systematic Review is a review of a clearly formulated question that uses systematic and explicit methods to identify, select, and critically appraise relevant research, and to collect and analyse data from the studies that are included in the review (Cochrane Collaboration, 2014).

## 2. DISCUSSION ON SYSTEMATIC LITERATURE REVIEW (SLR).

The details of SLRs' findings are tabulated in Table 2.1 below:

**Table 2.1 Systematic Literature Review**

No.	Title	Author(s), Journal & year published	Research Objective(s)	The Findings
1.	Examining Accounting & accountability issues in religious context: Insight from literature	Hassan Basri & Siti Nabiha Abdul Khalid Aceh International Journal of Social Sciences, April 2012.	To evaluate the accounting and accountability literature on non-profit organizations of religious institutions.	<ul style="list-style-type: none"> <li>•Religious institutions are motivated by religious faith broader than humanitarian concern.</li> <li>•Religious based organizations are managed the same as NPOs. There is no separation between accounting works and other religious activities.</li> <li>•The management of religious organization is accountable to Allah and to satisfy the need of the stakeholders.</li> </ul>

2.	The internal control procedures of Mosques in Malaysia	Maliah Sulaiman Revista Universo Contabil, ISSN 1809-3337, Blumenau, v.3, n.2. p.101-115 (2007)	To examines the internal procedures relating to the concept of income and the disbursement of funds in the state mosques in West Malaysia	<ul style="list-style-type: none"> <li>• The state mosques in West Malaysia have a strong internal control system of income receipts and disbursement of funds.</li> <li>• Basic control activities – segregation of duties, recording of financial transactions and authorization of particular activities are satisfactorily practiced.</li> <li>• As benchmark for other internal control practices in religious organization.</li> </ul>
3.	Discharging Accountability through Governance: Cases from Waqf Institutions in Indonesia	Natasha Ramli et al Malaysia Indonesia International Conference on Economics, Management and Accounting (MIICEMA, 2014)	<ul style="list-style-type: none"> <li>• To identify the governance processes being conducted in Indonesia waqf institutions.</li> <li>• To determine Shariah governance existence in the institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• The board composition, education background and leadership style ensure accountability discharge in a waqf institution.</li> <li>• Internal auditing is crucial in the organization besides the external auditing. This is to ensure a better governance and better segregation of duties in performing their tasks.</li> <li>• Both institutions have a sound internal control in terms of money usage (approval, governance process, budgets).</li> <li>• Shariah audit is important in Islamic institutions that managing assets.</li> </ul>
4.	Problems of Waqf Administration and proposals for improvement: A study in Malaysia	Md. Shahedur Rahaman Chowdhury et al. Journal of Internet Banking and Commerce (ISSN: 1204-53570)	<ul style="list-style-type: none"> <li>• To study the features of existing waqf administration in the light of Malaysian context</li> <li>• To analyze the problems and prospect of waqf systems in Malaysia.</li> </ul>	<ul style="list-style-type: none"> <li>• Waqf should be managed with qualified, knowledgeable and professional managers who are well acquainted with Islamic as well as country laws. Because in some cases Mutawalli or waqf managers are found to be as unqualified.</li> <li>• Waqf assets/properties left idle due to some procrastination in the</li> </ul>

			<ul style="list-style-type: none"> <li>• To provide proposals for further improvement of the overall performance.</li> </ul>	<p>management process-property given up orally without any documentation or registration.</p> <ul style="list-style-type: none"> <li>• Accounting practices are not in compliance with Islamic accounting norms.</li> <li>• Complexity in the possession of land property – leasing and rental below market price. Defaulting land tax and other kind of taxes to Waqf land properties.</li> <li>• Waqf revenues are insufficient to bear the operational costs due to the institution has no self-generating income and unproductive, delay in the earning of waqf properties compensation.</li> </ul>
5.	Income Optimization from Waqf properties: Sustaining the Acheen Street Mosque	Siti Nadiah Mohd Ali et al. E-proceeding of Social Sciences Research: ICSSR 2016	To obtain insights about the management of waqf funds, financial procedures and the control of the practice of waqf properties internally by Acheen Street Mosque.	<ul style="list-style-type: none"> <li>• Most of rental values of land around Acheen Street Mosque, Penang are lower than the lease value for the land sites due to the Rent Control Act 1966 applied instead of repealed circa 1997.</li> <li>• There is a backlog on leased waqf properties by mean of produce revenue to give away according to the owner's intention (Al-Mawquf 'Alaih) interrupts the process of expenses for the mosques and its management.</li> <li>• Slow in rent revenues collection process, maintaining buildings and other are due to limited number of staff in Penang SIRC.</li> <li>• Almost 100% of the tenant failed to pay the rent due to false perception of people</li> </ul>

				on waqf. It is time for waqf property's dignity to be lifted, not trampled and considered to be free.
6.	Challenges of Management Practices in Institutional <i>Mutawalli</i> to achieve Utilisation of Waqf Property: An Exploratory Study	Hasyeilla Abd Mutalib and Selamah Maamor The European Proceedings of Social & Behavioural Sciences (EpSBS) eISSN: 2357-1330	To explore the challenges faced by the institutional mutawalli to achieve the utilization of waqf property in their management practices (management aspects, administration procedure, waqf property management, waqf property utilization and the contribution of the property).	<ul style="list-style-type: none"> <li>• Institutional Mutawalli are facing problems with the management practices in the institutions especially related to personal experience in waqf area.</li> <li>• Training and development in understanding their functions and responsibilities in managing tasks associated with waqf property and other related tasks is important to achieve waqf institutions objectives, vision and mission.</li> <li>• The main function and responsibility of the management is to implement good management features i.e. transparency, accountability, trustworthiness and professionalism so that the institutional mutawalli can be accomplished.</li> </ul>
7.	Waqf Management and Administration in Malaysia: Its Implementation from the Perspective of Islamic Law	Mohd Afendi Mat Rani and Asmah Abdul Aziz Malaysian Accounting Review, Special Issue Vol.9 No2, pg 115-121 (2010)	To discuss the power of a trustee of an endowment property in Malaysia.	<ul style="list-style-type: none"> <li>• The power to administer the waqf property depends on the recipient or the administrator (qadi).</li> <li>• Most state enactments do not allocate specifically how to administer the waqf property except Johor, Selangor, Melaka and Negeri Sembilan.</li> <li>• State Legislative Assembly (SLA) as Sole trustee will ensure waqf property is well administered, efficient and able to generate good results for the beneficiary of welfare purposes.</li> </ul>

				<ul style="list-style-type: none"> <li>• SLA is forced to fulfill the government's requirement in waqf land.</li> </ul>
8.	The Development of Waqf Accounting in Enhancing Accountability	Rosnia Masruki & Zurina Shafii Middle-East Journal of Scientific Research 13 (2013). (ISSN: 1990-9233)	To evaluate the needs for developing accounting standards and Statement of Recommended Practice for Charity (SORP) based on the AAOIFI framework.	<ul style="list-style-type: none"> <li>• Accountability of mutawalli in managing waqf can be improved with accounting standards and code of good corporate governance for waqf.</li> <li>• Federal Government uses reporting as a tool to measure waqf institution's performance.</li> <li>• Accounting guidelines on reporting, code of practice and governance would be able to enhance transparency and accountability of waqf institutions.</li> <li>• A shariah advisory council is needed to advice on shariah compliance and related issues.</li> </ul>
9.	Waqf accounting and management in Indonesian Waqf institutions-The cases of two Waqf foundations	Hidayatul Ihsan & Shahul Hameed Hj Mohamed Ibrahim (Humanomics, Vol. 27, No.4, 2011)	<ul style="list-style-type: none"> <li>•To examine accounting and management practices in two Indonesian awqaf institutions. (ABC and XYZ)</li> <li>•To seek evidence on how Mutawalli's discharge their accountability</li> </ul>	<p>Out of two waqf foundations ABC is more efficient management with greater transparency and accountability than XYZ from 4 perspectives:</p> <ol style="list-style-type: none"> <li>1. Waqf management.</li> <li>2. The accounting system, recording, documentation and registration of waqf assets</li> <li>3. The preparation of accounting information</li> <li>4. Dissemination of reporting</li> </ol>
10.	Comtemporary Shari'a Compliance Structuring for the Development	Shamsiah Bte Abdul Karim Kyoto Bulletin of Islamic Area Studies, March 2010. Pp 143-	•To discuss the history, the founder and the legal aspects of waqf in	<ul style="list-style-type: none"> <li>• The stringent accounting disclosure and the good governance of Singapore government in keeping records are factors which create confidence in</li> </ul>

	and Management of Waqf Assets in Singapore.	164.	Singapore. •To discuss various investments, financing and development strategies to develop waqf assets by (Majlis Ugama Islam Singapura (MUIS)). •To outline the various allocation for the beneficiaries benefitting from the waqf.	pursuing such contract on long lease of waqf property. • They have a sound internal control structure of waqf system. • The only dilemma of the waqf administrator in Singapore is the risk to sustain the return on investment on waqf property without reducing the waqf assets.
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### 3. DISCUSSIONS ON THE FINDINGS

Various findings on various area of focus in waqf management and administration were recorded. It was from the human capital aspects of the waqf managers up to the issue of revenue collection of waqf assets. Institutional Mutawalli (waqf managers) facing challenges in management practices related to personal experiences in waqf area besides less training and development in understanding their functions & responsibilities in carrying their responsibilities (Mutalib & Maamor, 2016). Waqf should be managed with qualified, knowledgeable and professional managers acquainted with Islamic as well as country laws. In some cases, Mutawalli/waqf managers are found to be unqualified (Chowdhury et al (2012). Shariah auditor is also another important human capital in Islamic institutions to oversee waqf assets records, board composition, educational background and leadership style of waqf institutions. This is to ensure accountability discharge in a waqf institutions are effectively carried out (Ramli et al, 2014). Therefore, a Shariah Advisory Council is needed on shariah related issues (Mastuki & Shafii (2013).

On the other hand, there is no separation between accounting works and other religious activities (Basri & Khalid, 2012). Religious based organizations are managed the same as Non-Profit Organization (NPOs). Accounting guidelines on reporting, code of practice and governance would be able to enhanced transparency and accountability of waqf institutions. For better management and administration of waqf institutions, internal auditing is crucial in the organization besides the external auditing to ensure better governance and better segregation of duties in performing their tasks (Ramli et al, 2014). This is proved by a comparative study on the two waqf foundations in Indonesia, one is more efficient in management with greater transparency and accountability as compared to the another on four perspectives; waqf management, (accounting systems, recording, documentation and

registration of waqf assets), the preparation of accounting information and dissemination of reporting (Ihsan & Hameed, 2011).

Another challenge of waqf institutions is the collection of waqf revenue. Few studies reported that the collection is insufficient to bear operational cost (Chowdhury et al, 2012). Most of rental values are lower than the lease value (Rent Control Act 1966) instead of Repealed Circa 1997 (Rani and Aziz, 2010). A backlog on leased waqf properties and failure in revenue collection process interrupts the process of expenses for the mosque and its management (Mohd Ali et al, 2016). Most of state enactments do not allocate specifically how to administer the waqf property except few states in Malaysia (Johor, Selangor, Melaka & N. Sembilan). That is why some of the waqf assets left idle without any documentation or registration (Rani and Aziz, 2010).

#### **4.0 CONCLUSIONS**

Although significant improvements are noted with regards to the accounting and reporting of waqf assets (Yaacob et al, 2016), certain areas still need some improvement especially on non-financial data, internal auditing, collection process, expenses and disbursement of waqf collections from rental. Besides, the qualification, experience and training and development of the waqf managers or Mutawalli are another issue that waqf institutions should not be ignored. The main principle of good practice of evaluating and improving waqf systems is through a sound internal control system. Therefore, internal control system should be exercised to support the organization in achieving its objectives by managing risks, while complying with the rules, regulations, and organizational policies (IFAC, 2012). A study of Sulaiman (2007) on a strong internal control system of income receipts and disbursement of funds in the state mosques in West Malaysia and a sound internal control system on accounting disclosure and the good governance of Singapore government in managing waqf property (Karim, 2010) can be used as a benchmark.

Thus, further study is necessary especially on how internal control can help to improve such area of weaknesses in managing and administering a waqf institution.

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