

## CONCEPTUAL PAPER ON QUALITATIVE CHARACTERISTICS: WAQF ACCOUNTING IN MALAYSIA

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### ABSTRACT

*Waqf is one of the voluntary activities that being managed by government-like entity in Malaysia. The word Waqf is derived from the Arabic root verb waqafa, which means 'causing a thing to stop and standstill (Chowdury, et al. 2012). The concern on waqf accounting and proper documentation has already been debated by various scholars few years ago. To mitigate the incongruities in accounting procedures and treatment methods concerning these new things, a set of conceptual framework is crucial as a form of guidelines that is deem appropriate and acknowledged by accounting professions as a whole. Globally under (GAAP), reliability and understandability represent the qualitative characteristics in the financial statements. Remarks from AAOFI also consist on the reliability and understandability which serves as qualitative characteristics in Islamic financial reporting. Entity which managed the waqf accounting is not required to adapt the Malaysian Financial Reporting Standards. Nevertheless, the scepticism on the quality and transparency of the financial statements presented occurred among the public. Hence it leads to these study objectives which are; 1) to explore qualitative characteristics of financial statement in waqf accounting, and 2) to assess the waqf accounting and reporting practices. The aspiration of this study is to instill the improvements that can be made in waqf state institution pertaining to their reporting. Besides, this study would help the waqf institution in Malaysia to present the financial statements which follows the conceptual framework in order to be comparable and readable from various types of users from Malaysia and overseas.*

**Keywords:** *waqf, accounting, reliability, understandability, conceptual framework.*

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### 1. Introduction

#### 1.1. Waqf and Conceptual Framework of Accounting

*The word Waqf is derived from the Arabic root verb waqafa, which means 'causing a thing to stop and standstill (Chowdury, et al. 2012). It showed that this deed is known as eternal devotion by Muslim of any property for good faith (Ibrahim et al.2013). Muslims who perform waqf are hoping for blessings from Allah and the rewards will wait for them in thereafter life. Islam taught its ummah to give and share with the poorest as it is virtuous spending and remarkable charities, (Ibrahim et al. 2013). It is also one of the noble deeds that can be practiced in order to obtain blessing from Allah. Waqf contribution is absolutely magnificent and the beauty of waqf has spreading to every ummah who benefited from it. Few examples can be namely such as; Quba mosque in Madinah and Al-Azhar University in Egypt, proves that waqf operate as great financial assistance in serving public needs in terms of education, hospitality and others. The existence of cash waqf somehow leads to various welfare activities and do help numerous ummah in relieving their encumbrance when they faced with shortage of fund. For instance, cash waqf assist in supplying basic needs for the poor, widows, orphans and cash waqf also used to finance the maintenance of the infrastructure facilities. Those people who faced financial difficulties don't have to borrow or*

in worst scenario stealing from others to pursue their life if the countries maintain the cash waqf for indefinite time. Tohirin (2011) pointed that voluntary activities which conducted by Muslim individuals become a mirror image of altruism characteristic of human being. These activities might provide many benefits for the community in the form of public services be made available, such as educational services, orphanage shelters, medical clinic facilities and so on. Though those basic infrastructures should have been provided by government, there are always plenty of spaces for community members to furnish equal community's needs due to the shortage of government budget to cover the whole package of the public services. The significance of waqf depends on the form of property being donated and it can be utilized for various types of interest or necessities for a good of ummah

Specifically in Malaysia, below is some example of waqf project:

Categories	Item
Higher education institution	Kolej Universiti Islam Antarabangsa Selangor
Hospitality	Hotel Seri Warisan, Taiping Hotel Grand Puteri, Kuala Terengganu
Medical	Hospital Pakar An-Nur
Mosque	Masjid Wakaf Tembusu, Kuala Terengganu Masjid Wakaf Lichong, Kelantan

In Malaysia, waqf is one of the voluntary activities that being managed by government-like entity, (Osman, 2010). Management of waqf entities is conducted by Jabatan Wakaf dan Haji (JAWHAR) and each state also have their own entities to deal with waqf matters. For example; Perbadanan Wakaf Selangor, Johor Corporations, Perbadanan Wakaf Negeri Sembilan and others. Saad (2013) asserted that during the middle period of Islamic history, waqf institution have significant responsibility in socio economic of Muslim. Even for now, waqf do serve as a medium for financing Islam in terms of social, cultural, economy and political activities.

Othman et al. (2010) states that medium of communicating information which help to influence decision making of various stakeholders such as; financial analysts and investors would be financial statements. The financial statements prepared followed the requirements of accounting standards and also the conceptual framework. Key Focus now is a financial reporting given that the accountability paradigm has influence the conceptual framework for charity reporting, (Connolly and Hyndman, 2013). Conceptual framework is essential in preparing the financial statements and this proves that waqf reporting must have the qualitative characteristics of conceptual framework to produce convincing financial statements to the users. Why conceptual framework? Dai (2011) indicates that conceptual framework which serve as a root of structural system of financial accounting is broadly recognized by accounting profession as a means to overcome the incongruity in procedure and treatment related with accounting. The conceptual framework serves as a benchmark for constructing the accounting standards and accounting practices, to retain the uniformity and rigorous accounting treatments and theoretical basis. As for NGO such as waqf institution, the compliance on conceptual framework will enhance trust of public on their accountability. Dhanani and Connolly (2012) asserted that the reliance on public funding made the NGO hold an obligation to utilize the monies entrusted to them efficiently. Simultaneously, they are expected to produce optimal outcome based on the public fund that are voluntarily donate. Previously, Rahaman et al. (2010) recommend that straightforward methods on financial accounting should be develop in order to lessen the multifarious and

time consuming reporting. Thus, the demand on the conceptual framework is already identified few years ago. Model on stakeholder-needs is now well created as suitable basis on charity reporting conceptual framework and accounting is anticipated to fulfill the stakeholders demand associated with accountability concept (Connolly and Hyndman, 2013). MFRS<sup>1</sup> 101 clearly stated that the general purpose of financial statements prepared by entity is meant to tailor the needs of various users. The users are keen to know what and how is the business doing at the end of financial year. One of the essential communication devices to various stakeholders is a financial reporting. This reporting normally presented in the annual report which used as primary stimulus in decision-making (Othman et al. 2010). Having said that, the integrity and transparency of reporting are mandated as it implies the reliability of the reporting. Both are trivial aspects in the financial reporting quality indicator (McEwen and Ruth Ann, 2009). Though company which manages the waqf does not have to comply with the MFRS, the public or the users of financial statements are expecting the integrity and accountability of the personnel to clearly report the genuine activities and figures based on the waqf properties. Entity which managed the waqf accounting is not required to adapt the MFRS. Nevertheless, the scepticism on the quality and transparency of the financial statements presented occurred among the public. Abdul Rahim (1999) found that there were loopholes towards waqf accounting in Malaysia. Among others are; disorganized management and the absence of written procedure to document the waqf financial transactions. Other than that, most of the State Islamic Religious Council (SIRC) had overdue and outdated financial reporting, (Siti Rokyah, 2005). Ihsan (2013) also mention that due to the absence of specific accounting guidelines of waqf accounting, there seems to be variation of accounting practices among the waqf institutions. It showed the loopholes in waqf recording due to improper of accounting guidelines. Proper recording, documentation will lead to fully waqf utilization for ummah' development projects in terms of infrastructure, education, hospitality, and many more. The solution is that ;Waqf accounting can be used to improve transparency and enhance accountability of waqf institutions in Malaysia.

Therefore, the absence of specific guidelines or standards on accounting for waqf triggers the interest to examine the relevance of waqf accounting so that transparency and accountability of waqf institutions could be assured, (Masruki, 2013). Specifically, this study would like to explore qualitative characteristics of financial statement in waqf accounting whether waqf accounting has practiced the qualitative characteristics of financial statements under the conceptual framework namely; reliability and understandability. Secondly, this study would like to assess waqf accounting and reporting practices.

## **2. Literature Review**

### **2.1 The Magnitude of Waqf**

Waqf is a singular word whereas awqaf is a plural words originated from Arabic word which means to hold or stop, (Ihsan, 2002). Yaacob et al. (2012) asserted that waqfas the holding of assets and the fairly distribution to others. These kinds of deeds are examples of voluntary activities. Tohirin and Hudayati (2011) specifically point out that voluntary activities performed by Muslims indicate altruism of being a Muslim. It is because it will serve the benefits for society in terms of properties waqf for education, hospitality and others. Indirectly, this will strengthen the social welfare between family from different classes of income. Once the properties are dedicated for waqf, it is Allah belongings and it is not allowable to be taken by anyone. It is proven that the role of waqf in the past was importantly

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<sup>1</sup> Malaysian Financial Reporting Standard

promoting the social welfare of the ummah (Ihsan, 2002). The richest act as a helping hand to the poorest to sustain the balance of social welfare. Allah's remark on waqf value in Al-Baqarah (2:267); *'O ye who believe! Spend of the good things which ye have earned, and of that which We bring forth from the earth for you, and seek not the bad (with intent) to spend thereof (in charity) when ye would not take it for yourselves save with disdain; and know that Allah is Absolute, Owner of Praise'*. This verse demand all Muslims to voluntarily contribute partly of our income which Allah bequeath through this earth. Those Muslims who understood this verse will opt for waqf indisputably. A choice of wealth purification is definitely waqf which shall be adapt in all Muslims countries for transformation in current life and hereafter. Abu-Zahrah (2007) mentioned that Masjidil Haram Makkah, Masjid al-Aqsa in Jerusalem, and Al-Azhar University are notorious example of waqf existence practices way back before disseminating of Islam around the world. This followed by Hadith Sahih (precise) on Umar ibn al-Khattab the second caliph in Islam who bequeathed his land in Khaibar as waqf property. It means, any crops yield from the land is for the poorest and <sup>2</sup>jihad. The moment that Muslims declared his property as waqf, he himself is not allow to enjoy any profit from it. Waqf means it belongs to Allah s.w.t and the misuse of it shall be averted.

Islam is the religion which embraces the way of life and completely covers the aspects of human life (Yaacob et al. 2012). Islam taught the Muslims to share the prosperities and problems together as mentioned in Holy- Quran (Ali-Imran 4:92) *'You won't get the good deeds unless you share your wealth with the poor. The good deeds that Muslims executed will have a good return (Yunus 11:26). In Al-Quran, Al-Hadid 57:11 verse stated; 'Who is he that will lend unto Allah a goodly loan, that He may double it for him and his may be a rich reward'*. This proves waqf is most welcome activities and the people who perform the deeds have been guaranteed a reward from Allah. If we donate RM10 for education waqf, in return Allah has guaranteed that we will receive double or triple than RM10 in terms of enrichment wealth, lasting healthy, happiness life and many more. The return guaranteed not necessarily in terms of money but can be in any forms. Waqf is a mechanism which purifies our wealth as well as assistance for Muslims to face the Judgement Day. Allah has mentioned in Al-Baqarah (2:254); *'O ye who believe! spend of that wherewith. We have provided you a day come when there will be no trafficking, nor friendship, nor intercession. The disbelievers, they are the wrong-doers'*. This signified that the exclaiming of Allah to contribute our wealth in forms of waqf before it is too late. The disbelievers are the most cruel as they ignores the poorest and refuse to allocate their wealth for those needy. This verse continued with (2:261); *'The likeness of those who spend their wealth in Allah's way is as the likeness of a grain which growth seven ears, in every ear a hundred grains. Allah give increase manifold to whom He will. Allah is All- Embracing, All-Knowing'*. It can be described as Muslims who performed waqf is like one seeds planted will grow more. For every seeds grow, Allah gives unlimited rewards as He is the Most Knowing. In substance, the wealth that we have will be lessen but Allah knows more in which that good deeds will have Allah blessings and our life now and hereafter embraces the rewards from Allah. The verse on waqf significance continued in Al-Baqarah (2:262); *'Those who spend their wealth for the cause of Allah and afterward make not reproach and injury to follow that which they have spent; their reward is with their Lord, and there shall no fear come upon them, neither shall they grieve'*. This can be interpreted as; for those Muslims who allocate their wealth upon waqf for Allah's sake and they bring no harm to anyone, Allah pledge a reward for them. Thus, they should

<sup>2</sup>a [holyyarwafought](#) by Muslims against [people](#) who are a [threat](#) to [Islam](#)

not fear and grieve. Muslims should have sincerity and faith in Allah when the portion of their wealth has been channel to waqf. They shall not regrets or doubt on Allah's word in Al-Quran.

## 2.2 Qualitative Characteristics – Understandability and Reliability

Preparation of financial statements in Malaysia for listed companies is compulsory to follow the MFRS. International Accounting Standard Board (IASB) stated that *“the objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to potential investors, lenders and other creditors in making decision about providing resources to the entity”*. According to Masruki and Shafiee (2013), accounting process of waqf institution had been broadly practiced during Ottoman empire. During 16<sup>th</sup> century (Ottoman Empires), a book of accounts consists of waqf balances, earnings, lists of assets, lending amount as well as incomes an expenditures (Toraman et al. (2007). It implies that the process of accounting been known to be vital knowing that the mutawali who act as a trustee hold the responsibility in managing the public's properties. Though the preparation is not necessarily following the accounting standards guidelines, the public insisted the transparency reporting as waqf involving the societies. In Malaysia, as far Islamic institution is concerned, The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) serves as the best accounting guidelines to assist the preparers of financial statement, (Masruki and Shafiee, 2013). As basic accounting reports, entities which involved in management waqf prepared balance sheet, profit and loss accounts and statement of cash flow (Tohirin and Hidayati, 2011). Based on the conceptual framework applied globally under (GAAP), reliability and understandability represent the qualitative characteristics in the financial statements. As mentioned in Yaacob et al. (2012), remarks from AAOIFI also consist on the reliability and understandability serves as qualitative characteristics in Islamic financial reporting. According to McGraw Hill<sup>3</sup>, the financial statement is considered reliable when it consists of 3 criteria:

- i. it is free from material error;
- ii. it is free from deliberate or systematic bias (i.e. it is neutral);
- iii. it can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent

Therefore, waqf accounting should have those criteria to be reliable. Reliability exists when the information is complete and has faithful representation. According to the framework under GAAP, reliable information is when it signifiestruly the transactions and other events it either senses to represent or could rationally be expected to represent. *‘It involves identifying all the rights and obligations arising from a transaction or event, and accounting for the transaction or event in a way that reflects its economic substance’*. This implies, waqf entities should present information that is reliable or he might think that the information will be reliable in certain conditions. Simple example; 1 acre land has been declared as waqf property by one individual. Hence, the personnel who prepare the waqf financial report would have to declare what development or projects that have been undertaken though the amount is so little. It is because that information is reliable for public to assess the successfulness of waqf projects being done. Moreover, reliability also exists when the information is free from any material error. This is deem important as the material error information can trigger the financial statements to be incorrect or misrepresenting and thus will become unreliable to the reader. Apart from that, information provided in financial

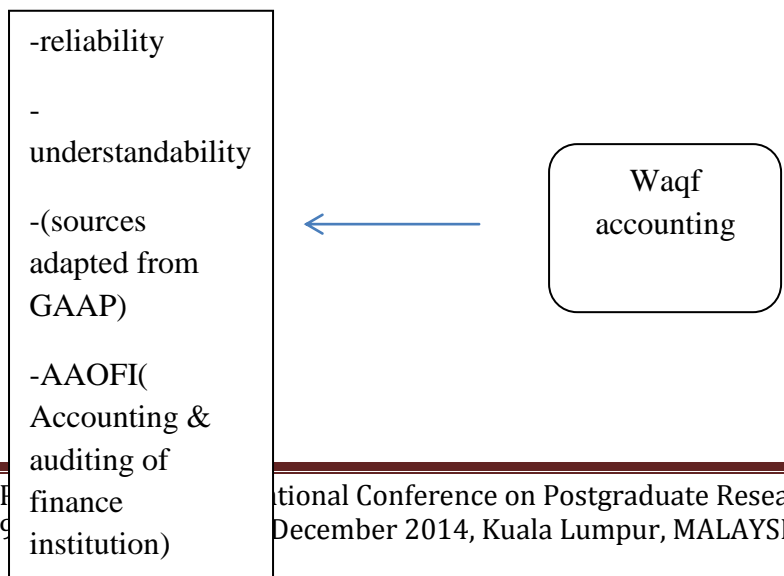
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<sup>3</sup> Extracted from <http://highered.mcgraw-hill.com>

statements also needs to be neutral or free from any unfairness. Financial statements will not be consider as neutral if, it leads to decision which is bias to one party only. Lastly, information is deem to be reliable when the preparers exercise prudence. Prudence is *'the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets and income are not overstated and liabilities and expenses are not understated'*, (ASB, 1999). This implies the personnel should be extra cautious to ensure that assets and incomes were not overstated. Moreover, liabilities and expenses should not be understated. The exercise of prudence will encourage the true and fair reporting without and skeptical from the public when they view the waqf financial statements. The Framework highlighted that the practice of prudence does not permit the invention of hidden reserves or unnecessary provisions, the intentional understatement of assets or income, or the intentional overstatement of liabilities or expenses. Those are not allow because it leads to the bias financial and therefore, tarnish the quality of reliability. Specifically in waqf accounting, the distribution of waqf should be exercise cautiously based on sound judgment.

Secondly is understandability. Financial information in the annual report must be classifying according to the standard specification formats (balance sheet and income statement) to enhance reader understanding. Understandability is also taken into account the users' proficiency as well as aggregation and classification of information, (ASB, 1999). In addition, reader is expected to have basic accounting knowledge to appreciate the financial statement presented. Thus, waqf accounting is expected to include this in the financial statements to facilitate the reader well understand the waqf fund managing. Yaacob et al., (2012) highlighted that understandability is one of the qualitative characteristic or aspects of Islamic financial reporting. Waqf accounting should have been prepared in order to be understood by the reader. Those personnel who prepare financial statements are allowed to predict that users have a sound knowledge of business, economic activities and accounting. They also should willingly to study with reasonable conscientiousness on the information provided. As for waqf accounting, the reader of financial statements are assume to have accounting background in order to have comprehensive understanding on information presented in waqf financial statement.

The characteristics discussed below lead to the proposed theoretical framework below. It is hope that when waqf financial statements portray reliability and understandability, it can be relied upon and the reporting will enable comparison to be made among states which manage waqf matters.



Adapted from Yaakob et al. (2012).

### 3. Conclusion

It is hope that this study can demonstrate whether the financial statements of waqf entities in Malaysia portray the qualitative characteristics namely; reliability and understandability. The presence of those characteristics somehow makes the waqf financial statements readable and trustable documents by the public. Furthermore, if all state which manages waqf applies the similar conceptual framework; it is comparable if we want to review how the progress of waqf activities has been taken care of. Proper reporting of waqf activities will have an impact towards the reader of financial statements to grasp the waqfinflow and outflow activities.

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