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ACCOUNTABILITY THROUGH ACCOUNTING AND REPORTING LENSES: LESSONS FROM AN AWQAF INSTITUTION IN A SOUTHEAST ASIA COUNTRY

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Introduction

Awqaf (Islamic endowments) has received increased attention and interest by the *Ummah* (Muslim community) due to its proven socio-economics contributions of providing a wide range of public goods. During the Islamic *Ottoman* era, for instance, *awqaf* plays a very important role as a bank, provider of free education, free healthcare and other social services for many Muslims nations. The cash *awqaf* fund complements the *zakat* (Islamic tithe) fund and was used as financial aid to the poor and needy, besides financing the construction of public infrastructures (Saduman and Aysun, 2009). The most prestigious *awqaf* institution in the world which remains until today is the *Al-Azhar* University in Egypt, which was established on an endowment basis thousand years ago. It has produced and still producing thousands of religious scholars scattered throughout the world.

Many other products of the *awqaf* system have, however, noticeably vanished as a result of various factors including but not limited to mismanagement, colonization and imperialism (Deguilhem, 2003; Hidayatul and Shahul-Hameed, 2011). Given the nature of endowment that requires trust and integrity as well as the economic importance which the *awqaf* system carries, the observance towards accountability by *awqaf* managers is therefore imperatively crucial. The sustainability of *awqaf* institutions greatly depends on prudent management and administration. Specifically, *awqaf* managers must ensure that *awqaf* deeds are honoured and the *awqaf* usufructs reach the intended beneficiaries. Extant *awqaf* literature indicates that the accountability aspects of *waqf* trustees or managers are still lacking due to several reasons. Among others, it includes unqualified human capital, insufficient resources to maintain and develop the *waqf* properties, mismanagement of *waqf* funds and lack of transparency (Hidayatul and Shahul-Hameed, 2011; Shahedur *et al.*, 2012; Siti-Rokyah, 2004). The accountability literature has also been relatively scant on the role played by accounting and reporting in *awqaf* institutions, which are considered as not-for-profit, religious-based organizations. Accordingly, the plausible implications for the accountability discourse in the religious context remain unexplored.

Background

Awqaf (singular: waqf) is literally defined as the holding of assets and the distribution of its usufruct to others (Hairul-Suhaimi and Hisham, 2011). Its operations are closely connected to the concepts of "confinement" and "prohibition" in which when a particular awqaf asset is given out as awqaf, its ownership is regarded as "belong to God – Allah" and therefore "prohibited" from being taken private or even transferred to government ownership (Hashmi, 1984; Hassan, 1984; Kahf, 1998; Qasmi, 1999). The *awqaf* asset's usage is also "confined" to the predetermined purposes identified by *waqif* (*awqaf* asset's donator). The management of *awqaf* assets can be in the form of direct and indirect. The former means that *awqaf* assets are managed by the donator himself/herself, while the latter involves the appointment of third party called "mutawalli" or *waqf* manager. *Awqaf* system is pillared by four elements (see Gaudiosi, 1988), namely *waqif* (the donor), *mauquf* (the assets), *mauquf-alaih* (beneficiaries) and *al-sighah* (*waqf* deeds or contract). Islam requires *waqif* to be of a sound mind and intellect when giving out his/her assets as *waqf*. The assets must also be wholly and legally owned by the *waqif*. The beneficiaries are required to be clearly identified and the *waqf* deeds are required to be drawn in the case of indirect form of *awqaf* management, as it acts as a governance device in any eventualities of dispute between the appointed *mutawalli* and relatives or descendants of the *waqif* (Yaacob, 2013). *Awqaf* literature (Fyzee, 1974; Zarqa, 1947) further outlines specific conditions enforcing the validity of *awqaf* transactions which include:

- *Perpetuity*: Assets are given out perpetually.
- *Objectives*: *Awqaf* purpose(s) is clearly stated.
- *Irrevocable*: Agreed *awqaf* transactions are final, unless by consensus or *fatwa* (religious decree) for *istibdal* (change of property with a similar value or location).

Accountability through Accounting and Reporting in Awqaf

Accountability is a derivative word of "accountable" of which the root word is "count" and its secondary word is "account". Bovens (2007) argues that accountability is originated from the *Anglo-Norman* period and it is closely connected to "accounting" as it also means bookkeeping. The accountability concept according to Bovens (2007) could be traced back to William-I reign during which the Norman conquered England in 1066. He then ordered all the landlords to provide "a count" of their possessions and subsequently used for taxes and to strengthen royal governance (Bovens, 2007). In the modern context, accountability implies the need for equitable and transparent reporting to all users covering both financial (e.g. financial statements) and non-financial information (e.g. explanatory narratives) (Patton, 1992; Yasmin *et al.*, 2014). Accounting and reporting are therefore considered to be one of the most important devices for accountability (Tower, 1993; Connolly and Hyndman, 2004).

In view that charitable environment like *awqaf* operates within the parameters of trust and integrity, accountability observance by *awqaf* managers is thus not an option. As *mutawalli*'s responses towards prudent management and transparent reporting greatly affect the sustainability of *awqaf* institutions, accounting and reporting are therefore considered as the most important device for *mutawalli* to discharge his/her accountability obligations (Hairul-Suhaimi and Hisham, 2011). Transparent reporting in charitable environment effectively increases public confidence (Perrin, 1985) while facilitating stakeholders' strategic evaluation which forms the basis of their decision of supporting the charitable institution or otherwise (Hooper *et al.*, 2008). Prior studies examining the actual reporting practices of charitable entities and its linkages to accountability are primarily concentrated in a non-Islamic context (e.g. Connolly and Hyndman, 2004; Connolly and Dhanani, 2006; Dhanani, 2009; Dhanani and Connolly, 2012; Hooper *et al.*, 2008; Yasmin *et al.*, 2014). The accumulating research essentially investigates the reporting of non-Islamic charitable entities based on information disclosure found in the organization's annual reports. Results from these prior studies generally reveal significant differences in reporting and disclosure practices across the selected samples of charitable institutions, and alarmingly, majority did not even meet basic accountability criteria in reporting. Results on prior studies also indicate that charitable institutions mainly report basic information representing fiduciary accountability covering probity and compliance, consistently deemphasizing reporting on information related to managerial and operational performance (e.g. Connolly and Dhanani, 2006; Dhanani, 2009).

Limited prior studies have also been conducted in the Islamic environment. Hairul-Suhaimi and Hisham (2011), for instance, examined *mutawalli's* accountability from the lens of management, accounting and reporting using the Stewart (1984) accountability ladder and found that a lot of improvements are needed for the selected Malaysian *awqaf* institution to fulfil both its primary and secondary accountabilities. Consistent with results found in prior studies in the non-Islamic context, Hidayatul and Shahul-Hameed (2011) found that transparency and efficiency of two selected Indonesian *awqaf* institutions are significantly different. The disparity in reporting practices are found to be attributed to different management style and human capital availability. A recent study by Yasmin *et al.* (2014) mirrored an earlier study by Hairul-Suhaimi and Hisham (2011) albeit in a different research setting. Using the same research framework of the Stewart (1984) accountability ladder, Yasmin *et al.* (2014) compared the reporting of Christian- and Islamic-based charity organizations in England. Results indicate that the UK sample charity organizations treat the exercises of disclosing mandatory information in their financial reports as merely ritual affairs, thereby neglecting the specific information details therein. The study further identifies donors' trust, informal organizational structure with concentrated decision-making power, manpower expertise and costs being the contributing factors towards the lack of communicated accountability among the selected charitable entities. Although there are many literature addressing accountability in not-for-profit and charity sectors (as per the above evidence), accountability in the *awqaf* institution is still under-researched. An investigation on the accountability driving factors and how financial accounting and reporting activities help to fulfil the accountability demand by stakeholders are among the gaps identified from the extant literature.

Major Findings of Study

Accounting and reporting practices

The financial accounting and reporting environment in country-S is noted to be comprehensively regulated. In view that *waqf*-S is established as a statutory body under IC, it has to strictly follow the country's administrative policies and guidelines as well as other financial regulations issued by the relevant regulatory bodies. Some of these written rules (e.g. financial reporting rules) are derived from acts mandated by the parliament, warranting for non-compliance to be resulted in severe punishment in the court of law. This directly motivates *waqf*-S being the *mutawalli* to exercise due care and diligent in managing and reporting *awqaf* assets and funds. The Assistant Director (Ms. S) explained:

"*Our operations and financial reporting practices are practically governed by comprehensive set of rules some of which are mandated by the Parliament. We consider the presence of these tight rules as a blessing in disguise as it insulates us from malpractices*".

The annually published financial statement of *waqf*-S includes:

• consolidated statements of comprehensive income;
• balance sheets;
• statement of changes in funds;
• consolidated statement of cash flows; and
• notes to the financial statements, which consist of comprehensive listing of all *awqaf* subsidiary accounts.

These official documents are audited internally (by the internal audit department) and externally (by big four international accounting firms) and made available online for public scrutiny. This is in compliance with the prevailing country-S's accounting standards (Accounting Standard Act, Chapter 2B, Revised Edition 2008). Additionally, *waqf*-S also maintains a comprehensive non-current asset register to record all *awqaf* assets managed and registered under *waqf*-S since the early 1900s. All assets are given a reference number and the list includes a photograph of the respective properties. In compliance with the prevailing accounting standards, depreciations are charged to each *awqaf* properties and appreciation are captured accordingly in its yearly financial statements. *Awqaf* properties are also subject to yearly valuation by an independent professional valuation company registered in country-S. This enables the current or market value of *awqaf* properties to be reflected in the published financial statement. With regards to the basis of preparation, the financial statements of *waqf*-S are prepared using the accrual reporting basis, consistent with country-S's financial reporting requirements. Accordingly, the "fund accounting" system commonly recommended in the *awqaf* literature for cash *awqaf* is not adopted. The system separates the balance sheet and income statements into several entities according to the established fund (Hooper *et al.*, 2008). The Assistant Director (Ms. S) explained:

"*We are not using the fund accounting for our cash awqaf as the requirements set out in the prevailing Accounting Standard Act do not require us to. However, we do have a subsidiary accounts for each of the individual awqaf assets and they are presented as the notes to the accounts in the awqaf section financial statements*".

Upon our inquiry during the interview, the Assistant Director (Ms. S) explicitly identifies target users for *waqf*-S financial statements to include the public, donors (*waqif*), government as regulator, *awqaf* beneficiaries and management personnel including its Board of Trustees:

"As a public interest body, our financial affairs are the interest of various stakeholders such as the public, government, beneficiaries and our board members".

This implies that *waqf*-S's financial statements are produced to cater for the informational demand by a wide range of relevant stakeholders. The published documents are also noted to be easily obtainable through various means, including direct request from *waqf*-S's office and online. Relevant questions may also be posed to *waqf*-S's personnel, particularly on issues related to collection and disbursement of the *awqaf* funds, and it is the institution's policy to attend and respond professionally to each public's inquiry.

Drivers for accountability

Multiple drivers for observing and upholding accountability by *waqf*-S are analysed in this exploratory research through three specific lenses of regulatory, stakeholders and religious image of an Islamic organization. These are considered as pertinent driving forces that are expected to mould the accountability culture in *waqf*-S, thereby improving the effective management and transparent reporting by the institution. Results based on the semi-structured interviews indicate that all three driving forces are considered as equally important to *waqf*-S in influencing its accountability trajectory. While regulatory apparatus and stakeholders' demand are observable drivers for high accountability observance, the religious image of the Islamic organization seems rather subtle and intrinsic. The fact that comprehensive regulatory apparatus on *awqaf* management, accounting and reporting provides profound impact on *waqf*-S's accountability culture is irrefutable. Comprehensive regulatory framework covering various statutory enactments (ordinance and the Act) on *awqaf* operations and financial reporting (Accounting Standard Act) reiterates if not reinforces the need for *waqf*-S to properly observe and uphold accountability. The Assistant Director (Ms. S) explained:

"*Our organization is effectively a regulatory driven entity. The prevailing inclusive regulatory framework drives our accountability culture and hence it dictates our operational exercises, whether management, accounting or reporting"*.

Apart from sound regulatory framework, *waqf*-S's accountability culture is also noted to be driven by the ever-increasing stakeholders' demand. Among others is the demand for efficient management and disbursement of *awqaf* assets by *waqifs* as well as transparent reporting by *ummah* being the prospective *waqifs* in building their trust towards *waqf*-S. The Assistant Director (Ms. S) explained:

"*We operate as an entity managing public funds. It is thus our utmost concerns that all stakeholders are effectively and appropriately served to the best of our ability. Observing accountability is thus not an option to us as it primarily ensures stakeholders' trust is inherently developed and strongly built*".

The strengthening of *awqaf* funds as reflected in the increasing value of disbursements across the eight-year period provides an initial indication of increasing trust by *waqifs* who are continuously contributing to the established *awqaf* funds. As these stakeholders place their demand for efficient management and disbursement as well as transparent reporting in return for continuous supports and trusts towards *waqf*-S, it formed such a force for enhanced accountability in the institution's accountability culture. The final observable albeit subtle and intrinsic driving force for accountability in *waqf*-S relates to the inherent religious image of Islam attached to the organization. *Awqaf* in itself is an Islamic-based philanthropy, whereby its existence and operations are based on *Quranic* injunctions and *hadiths*. This necessitates for *waqf*-S to manage the *awqaf* system properly and act in line with the spirit of Islam.

Implication of Findings

This paper is important as it shows that the management and administration of *awqaf*, which has been plague by mismanagement, embezzlements and lack of talents, can be improved and managed systematically, although there is a clear evidence of the lack of capable or talented human resources. Comprehensive accounting and reporting guidelines and regulation provide an effective framework for the institution to carry out their tasks in observing the full accountability requirements. Other awqaf managers can learn many valuable lessons from this institution although it suffers the lack of skilled human resources; it is compensated by the significant use of technology and the internet in managing the awqaf funds and assets and to disseminate important information to their stakeholders.

References: Will be provided upon request from Hisham Yaacob at Hisham.yaacob@uaeu.ac.ae.