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FOREWORD BY DEPUTY RECTOR OF RESEARCH, INDUSTRIAL LINKAGES & ALUMNI



Since 2018, the INSIGHT JOURNAL (IJ) from Universiti Teknologi MARA Cawangan Johor has come up with several biennial publications. Volume 1 and 2 debuted in 2018, followed by Volume 3 this year as well as Volume 4 with 19 published papers due to the great response from authors both in and out of UiTM. Through Insight Journal, lecturers have the ability to publish their research articles and opportunity to share their academic findings. Insight Journal is indexed in MyJurnal MCC and abstracted in Asian Digital Library (ADL). Moreover, it is also an international refereed journal with many international reviewers from prestigious universities appointed as

its editorial review board members.

This Volume 6 is the second special issue for the 6th International Accounting and Business Conference (IABC) 2019 held at Indonesia Banking School, Jakarta. The conference was jointly organized by the Universiti Teknologi MARA Cawangan Johor and the Indonesia Banking School Jakarta. Hence, this volume focuses mainly on the accounting and business research papers compiled from this conference, which was considered a huge success as over 66 full papers were presented.

Lastly, I would like to thank the Rector of UiTM Johor, Associate Professor Dr. Ahmad Naqiyuddin Bakar for his distinctive support, IJ Managing Editor for this issue Dr. Noriah Ismail, IJ Assistant Managing Editor, Fazdillah Md Kassim well as all the reviewers and editors who have contributed in the publication of this special issue.

Thank you.

ASSOCIATE PROFESSOR DR. SAUNAH ZAINON
Deputy Rector of Research, Industrial Linkages & Alumni
Editor-in-Chief for INSIGHT Journal
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Financial Accountability and Budgeting of *Waqf* Institution in Malaysia

Nathasa Mazna Ramli¹ and Nurul Husna Mohd Salleh²

¹Senior Lecturer, Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM), Bandar Baru Nilai, 71800 Nilai Negeri Sembilan, Malaysia
nathasa@usim.edu.my

²Research Assistant, Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM), Bandar Baru Nilai, 71800 Nilai Negeri Sembilan, Malaysia
nhusnamsalleh@gmail.com

Abstract

This paper aims to explore the relationship of accounting and accountability for a *waqf* institution, where it addresses the manner in which accounting practices may aid in the achievement of accountability. Budgeting is believed to be a type of accounting practices undertaken to achieve accountability as it reflects an institution's annual financial planning. A single case study is used to meet the research objective. Focusing on a single *waqf* institution allows an in-depth exploration of budget practices and elements that may subsequently influence the practice. The findings show that accountability is positively understood by members of the organisation, as well as their responsibilities as a *mutawalli* in achieving the financial accountability. This research provides an insight into accountability perceptions which can impact accounting practices in *waqf* institutions.

Keywords: Accountability, budgeting practices, financial accountability, *waqf* institution, Islamic Accounting

1. Introduction

The role of *waqf* as an Islamic financial tool should be perceived as a potential element towards empowering the economy of the *ummah*. Hassan and Shahid (2010) argued that despite the importance and potential of *waqf* in Islamic socio-economic development, the present state of *waqf* institutions as a body entrusted with *waqf* management is primarily unsatisfactory. This is supported by studies conducted by Ihsan and Adnan (2009), Siraj and Karbhari (2013), and Saleem (2009) respectively, which have indicated that the institutions are poorly managed. These vulnerabilities ultimately affect the society, due to factors like unskilled workers, non-standardized accounting practices, and inefficient *waqf* management. As a *waqf* trustee in Malaysia, the financial accountability of these organisations remained to be a concern. Among financial management activities available in *waqf* institutions, budgeting is believed to be a type of accounting practices undertaken to achieve accountability as it reflects an institution's annual financial planning.

Budgeting can be referred as any formalised system of forecasting, planning, monitoring and controlling the use of resources (Abraham *et al.*, 2008). It is an important tool utilised to evaluate the effectiveness and efficiency for resources usage, whereby in this case is pertaining to the use of *waqf* fund. Waqif (i.e. person who gives *waqf*) is personally

concerned with the manner in which their funds are being managed, whether it is in line with their objectives or not. Such management methods of public funds may result in either direct or indirect influence on the waqif's decision for future contribution. *Mutawalli* (i.e. person who manages *waqf*) should be held accountable for the fund entrusted to them. In light of this, an implementation of appropriate financial management tools is needed as *waqf* institutions are responsible for the management of *waqf* assets. Atrill and McLaney (2009) explained that due to budgets being a direct derivative of corporate objectives, budgeting drives managers to be better motivated. This is achieved by them being able to relate their particular role in business to its overall objectives. Hence, the financial accountability of these *waqf* institutions is enhanced, by the execution of their *waqf* planning and fulfilling the *waqf* deeds. However, despite information presented in budgets is vital in aiding managerial decision-making, little is known regarding the financial accountability of *waqf* institutions. Even less is known about its budget practices, as there is limited literature discussing the practices in such organisations. The discussions concerning *waqf* institutions have typically and largely focused on the management of *waqf* (Hassan & Shahid, 2010; Ihsan, 2012; Kahf, 2003; Ramli, Mohd Salleh, & Muhamed, 2015). Therefore, study of financial management of *waqf* institutions is neglected, resulting in insignificant contributions towards the welfare of the *ummah*.

This research provides the much-needed insight into accountability and accounting practices in *waqf* institutions alike. The paper is commenced with a review of relevant previous literature to elucidate the fundamental idea of the work. The subsequent sections discuss the research methodology and discussion of the findings. Finally, the paper is concluded by an explanation regarding the significance of the study and further suggestions for future research.

2. Literature Review

Gray and Jenkins (1993) define accountability as “the duty to provide an account (by no means necessarily financial) or reckoning of those action for which one is held responsible”. Accountability is a state of being accountable or liable. It can also be referred to as the quality or state of being accountable, especially as an obligation or willingness to accept responsibility or to account for one's action. In ethics and governance, accountability is the answerability, blameworthiness, liability and the expectation of account giving. It exists when there is a relationship where an individual or body, and the performance of any tasks or functions by that individual or body, are subjected to another's overseeing, direction or request that they provide information or justification for their actions (Stapenhurst & O'Brien, 2006). In religious organisations, the issues of accountability are far more challenging due to their unique nature of being bounded by religion itself. Abdul Rahman and Goddard (2003) have stated that it mainly revolves around the perceptions as to whom accountability is due to and its extent, and by what means it should be demonstrated. Afifuddin and Siti Nabihah (2010) also concluded that the access to financial information is useful for philanthropic organisations, thus, accountability and accounting have become key components for long-term trust in any relationship.

Lewis (2001) outlines the primary objective of accounting, which is to aid accountability. Those in charge of economic resources must give account of their stewardship, irrespective of whether the transaction and resources in question are of governmental organisations or private sector entities. A study conducted by Ihsan and Ibrahim (2011) has explored the major themes constituting the basis of accountability for *waqf*, allowing

a clear definition of the types of information that should be provided by the *mutawalli* to various stakeholders. This has been supported by Yaacob and Petra (2012), who stated that Islamic accounting concepts have emphasised that accounting and reporting as per *Shariah* are more than just numbers and some qualitative aspects. The spirit of '*ibadah*' has rendered the accountant liable towards reporting any fact-based information

Financial accountability can be defined as being held accountable to ensure that an organisation is financially sound and efficient through proper implementation of policies and financial activity. Siraj and Karbhari (2013) have explained that the system practised by an organisation is normally linked to the implementation of appropriate financial management system to ensure proper use of financial resources. For an organisation that is largely dependent on public donations, an adequate amount of financial resources planning, monitoring and evaluating, as well as reporting their usage are crucial elements to ensure timely decision-making for future sustainability. In organisations involved with managing public funds, the presence of a good system for organisational financial accountability is vital in predicting its foreseeable future. Moreover, the impact will be measurable in case of any financial mishap (Abraham, 2003).

Budget, in particular, is utilised as internal information to help managers making decisions. It is inclusive of strategic financial planning towards achieving financial and non-financial goals set by an organisation. Financial accountability requires information that can be used to assess "the economy, efficiency, effectiveness of entity operations". Due to the importance of donated resources, financial managers are required to determine fund raising targets and identify the best instruments that meet donor's requirement (Keating & Frumkin, 2001). Accountability matters due to many people viewing the concept as the final scorecard that answers the question regarding success or failure in performing duties and responsibility. However, this is not the reason it is highly promoted in *waqf* institutions, but rather the realistic understanding that it should serve as a principle in guiding them towards achieving their missions. Thus, ensuring that financial accountability is appropriately discharged is imperative. Out of all instruments utilisable to ensure the responsibilities and duties are in line with the goals, budgeting is the pre-eminent accounting practice that explains the concept of accountability (Goddard, 2004).

Unfortunately, budgeting in religious organisations has received little to no attention. Several works conducted by Siraj (2012), Goddard (2004), and Siraj and Karbhari (2013) respectively have looked into the budget practices employed by these institutions. This is due to issues of accountability being among the main interest of researchers concerning religious organisations. Siraj and Karbhari (2013) in particular have explained that donors and contributors expect that their donations are managed in compliance with religious precepts and towards accomplishing their altruistic intentions. Adequate planning of financial resources, monitoring and evaluating, as well as reporting the usage of these resources are the typical activities of budgeting, which seek to ensure donor and contributor expectations are met. It can be concluded that with good budget practices, effectiveness in *waqf* deliveries to its beneficiaries and the public can be improved. This in return may serve as a performance evaluation for *waqf* management.

3. Research Method

This study is an extension of Mohd Salleh and Ramli (2018) which focuses on budget practices of a *waqf* institution. The selected institution has been deemed adequate to establish an understanding of financial accountability and *waqf* budgeting. Consistent with

Mohd Salleh and Ramli (2018), Waqf Institution ABC has been picked to represent the population due to their credibility in managing *waqf* in Malaysia. Details background of *Waqf* Institution ABC can be referred to Salleh and Ramli (2018). Structured interviews are used for data gathering as the technique allows the use of the same set of questions in each interview. The interviews have been carried out on the 21st of February 2016, with each interview lasting an hour and a half on average and have been audio taped to provide an accurate transcription of the conversations. This study has aimed towards obtaining practical insights into financial accountability throughout the budgeting practices. Therefore, the interviewees are Chief Executive Officer (CEO) of the *waqf* institution, finance officer/accountant of the *waqf* department and administration officer/personnel involved in budget process.

4. Results and Discussion

Perceptions of accountability may shape the behaviour of an individual towards accounting practices. The concept as perceived by the managers and members of the organisation accordingly may determine whose responsibility, to whom they are responsible for and how the account is delivered (Goddard, 2004). Accountability relationship can be divided into two types, which are upward and downward. Firstly, Osman (2010) categorised upward accountability as the accountability towards the *waqif* as the fund donor. Abraham (2003) explained further that sources of accountability are derived from an internal need for charity-based institutions to be well-managed due to the nature of its mission. Meanwhile, its external demand is also present as donors expect these organisations to utilise sources in a manner that is in line with its mission.

There are consensus among all interviewees is that the primary accountability relationship is directed towards the effectiveness of *waqf* management towards the *waqif*. The comments below have illustrated the perceptions of the interviewees regarding who they are accountable to and how accountability can be achieved:

In conventional management, the stakeholders are the people who are renting the waqf property. But, ultimately our stakeholders are the waqif. Of course Allah the Almighty is our primary stakeholder... In conventional management's interpretation, waqf beneficiaries are their stakeholders.... But for us, the people who donated waqf are our stakeholders (Manager 2)

In agreement with the above statement, another interviewee has added:

For me, Waqf Institution ABC is accountable to perform well and to be more transparent. We want to prove to our waqif that we are doing our best to manage waqf...to develop the Muslim economy, generate income and most importantly, fulfilling the waqif's deed (Manager 1)

In order for the institution to manage *waqf* effectively, understanding their overall role as a *mutawalli* is crucial because they have been entrusted with the responsibility and authority to manage *waqf* in Malaysia. Thus, one participant has explained:

Our accountability is how far we carry out the amanah and responsibility, and preparing ourselves the best we could to discharge the duty...but to help and make sure waqf is effectively managed and well developed with accountability, thus State Islamic Religious Councils are established. So to evade mismanagement, the law has vested upon us as the sole trustee (Manager 2)

The implementation of Islamic laws under the Malaysian Constitution has been fortified by SIRC's with regards to the management and development of *waqf* assets. As the sole *waqf* trustees at the state level, *Waqf Institution ABC*'s roles as a *mutawalli* is undeniably paramount. Daud *et al.* (2011) have explained that a *mutawalli*: (i) has a religious duty to protect and maintain *waqf* assets; (ii) maintains the controlling function of the record keeping; and (iii) has a commercial function in managing *waqf* property, lease management, *waqf* investment and *waqf* development. The duty to maintain and protect these *waqf* assets is hence achieved through the implementation of the *waqf* deeds, specifically by gaining profitability results and subsequently distributing the benefits to the beneficiaries.

The institution must first understand its role as a *mutawalli* on order to discharge their accountability to the *waqif*. The interviewees have unanimously agreed that *Waqf Institution ABC* as a *mutawalli* needs to be responsible in governing *waqf*. As the sole *waqf* trustee in Malaysia, they have indicated that they do not solely focus on profit maximisation (though admitting that without it, survival is impossible), as managing *waqf* involves socially oriented and ethically based mission. In general, the results have reported that the prime responsibility of *Waqf Institution ABC* is towards public service delivery. From the *mutawalli*'s point of view, the accountability perception towards the *waqif* is synonymous with concerns regarding avoidance of misconduct and ensuring funds are used properly. Overall, the upward accountability mainly encompasses the managerial responsibility of the institution as a fund trustee.

Downward accountability according to Osman (2010) is the accountability to partners, beneficiaries, staff and supporters. In agreement with this, one particular information that has been collected indicate that:

We are accountable to everyone. To our BODs, Yang Di-Pertuan Agong, the secretary, staffs, and officers...everyone has a responsibility at all levels...In my concept, everyone has a duty. In terms of accountability, everyone has an accountability...At my level of management, what is my planning? What have I done to overcome the problem with tenants who refuse to pay the rent? What is my planning? What is my target? What is my strategy? (Manager 2)

In terms of waqf, we are responsible to waqif. But at the same time, we are also accountable to our shareholders. Firstly, for a state not governed by a Sultan, it's the Agong (that we must be accountable to)...next, to the state government, EXCO of Islamic Affairs...YDP, and secretary (CEO)

Although the downward accountability has not been clearly perceived by the members of *Waqf Institution ABC*, the relationship has occurred regardless of the budget process directly involving these individuals. At the management level, the Secretary, YDP, and BODs play a crucial role in approving the budget. Then, the State's Finance Officer, State's Treasury, the Director of Zakat and Sahibus Samahah Mufti of the state are among those of the external parties representing the downward accountability of *Waqf Institution ABC*. Nevertheless, the perceived downward accountability is clearly understood by *Waqf Institution ABC*, as the rigorous process of budget approval cannot be passed without the involvement of these parties.

Financial accountability is linked with the concern regarding the amount of money being used and the manner they are managed. Budget information is an example of reliable accounting practice for control and monitoring. Budgeting specifically is a type of accounting information used by managers to aid managerial decision making, while also utilised as a control mechanism in determining the amount that can be spent. Accountability is the obligation to present an account of an answer regarding the execution of responsibilities to those entrusted with the responsibilities (Gray & Jenkins, 1993). In line with the roles of a budget, the tool can be an appropriate medium to translate greater transparency and accountability, especially in *waqf* institutions (Masruki & Shafii, 2013).

Islam elevates the position of accounting, reporting and accountability in the spiritual context (Nahar & Yaacob, 2011), which does not differ much from the conventional practice. Nevertheless, looking into the various ways a *waqf* institution discharges its financial accountability is crucial, which generally deals with the implementation of appropriate financial management. The budget serves as an important tool for the control and evaluation of sources and the uses of resources; thus when used as a benchmark, it allows a *waqf* institution to execute and control authorised activities. Additionally, it also allows an evaluation of the financial performance on the basis of comparisons between budgeted and actual operations. Thus, the budget is implicitly linked to financial accountability. Highlighting the utmost importance of the budget to the institution, one participant has emphasised:

So the budget determines our income distribution, especially 40% that are allocated to accomplish waqf deeds. If we do not achieve our targeted budget, we will have a problem with our income allocation...we need to achieve at least 30% of the total budget for the 1st quarter. That is why we went through four stages of budget review to monitor and control the budget. We will make a comparison with the previous years' achievements, and we will look into problem areas and provide reasons to justify why we did not achieve the target during the meeting. (Staff 1)

Another participant has also affirmed:

Our accountability is to everyone. Besides that, to the waqif and Muslims as well. How successful the budget is will affect everyone and not the waqif alone. (Staff 2)

The organisational desire to achieve a balanced budget is apparent. This is further compounded by the budget review being held four times annually to monitor their achieved milestones in comparison with their targeted budgets. The process is relatively crucial as *Waqf* Institution ABC will be able to determine the completion percentage of the budget and the presence of any delays of key milestone. This allows them the chance to evaluate their actual performance against targeted budget to ensure necessary steps can be taken. The process as a whole is viewed as an attempt at achieving financial accountability.

Therefore, it is evident that budget is a preeminent practice in achieving accountability, as its absence will present as a problem for *Waqf* Institution ABC in managing their expenses and income. Furthermore, another important discovery in this study is that the budget is helpful in determining 40% of income reserved for *waqf* deeds enforcement. This shows that without budgeting, they will have trouble determining the amount spent to fulfil the *waqif's* deeds and subsequently disseminate the income and its benefits to the public. It also allows *Waqf* Institution ABC to keep track regarding the collected money usage

whether used for appropriate purposes and according to the *waqif's* intention. This in return will shed light on the extent of them discharging their financial accountability.

5. Summary and Conclusion

Budgeting has been found to be a very important tool of management in *Waqf Institution ABC*, as it is used to control the usage of funds and the manner they are raised. It is also an alternative controlling mechanism to ensure funds gained have been used for the appropriate purposes, while also utilised to monitor expenditure patterns throughout the year to safeguard the institution from over or under-spending. The production of this accounting document is therefore seen as a major part of discharging financial accountability, as it has been proven that budgeting in *Waqf Institution ABC* has helped the institution to disseminate the usufruct from *waqf* to its immediate beneficiaries and the *Muslim* public. This in return has enhanced their performance in order to discharge the financial accountability of the institution. This research finds that there is little to no variation on accountability perceptions in *Waqf Institution ABC*. The downward, upward and financial accountability relationships respectively are clearly perceived in terms of the objective they are responsible for and to whom they must be accountable to. The budget has thus emerged as an important accounting practice to achieve financial accountability given its roles in monitoring and controlling spending, as well as allocating the income for the right purposes. Meanwhile, accountability does affect budgeting practices, but in this case, it is very minimal. This study is limited due to its small sample size. Nevertheless, the selected sample is adequate to provide a broader perspective and in-depth explanation regarding the issues being investigated. Thus, the number of institutions covered in this study may not represent all *waqf* institutions in Malaysia. However, as this study is not intended towards making an overall generalisation, where it can be illustrative in other similar cases.

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