Trust Me! A Case Study of the International Islamic University Malaysia's *Waqf* Fund

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Abstract: This paper documents the development of the International Islamic University Malaysia's *waqf* Fund (IIUMWF) from its inception in 1999 to the present as well as examining its accounting practice. Specifically, we examined four pertinent areas: the management of the fund, the fundraising activities (and the types of funds, *waqf khāṣṣ* or *waqf ʿamm*), the programmes undertaken and the accounting practices of the IIUMWF. The theoretical framework is based on the Islamic concept of accountability. On this, there are two pertinent issues addressed in this study. The first is on disclosure and the second assesses the performance of the *waqf*. We examined the accounts of the IIUMWF and benchmarked against the framework developed by Ihsan and Shahul (2007). As for performance, we computed three ratios to assess its efficiency: 'Programme Expenses to Total Expenses', 'Investment Income to Average Investment', and 'Fund Raising Expenses to Total Related Contributions'. We concluded our paper with various suggestions and recommendations for further improvements in the management and accounting practices of *waqfs* in general and the IIUM *waqf* Fund in particular.

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I. Introduction

The institution of *waqf* dates back to the time of the Prophet (pbuh). *Waqf* is generally considered a religious and a charitable organization (Islahi, 2003; Sadeq 2002). Sadeq argues that the institution of *waqf* may be regarded as a charity in perpetuity. Historically, *waqf* funds were used for the provision of public goods such as education and health. More recently, however, there have been suggestions by some authors that the institution of *waqf* may help alleviate poverty (Sadeq, 2002). Thus, the increasing emphasis on its socio-economic role is clearly evident. Peters' (1986) viewpoint is similar. He argues that the institution of *waqf* may be regarded as one of the more important economic institutions of an Islamic society. In order to ensure that *waqf* may assist in alleviating poverty, it is important that the fund is properly organized and managed. More importantly, there needs to be a conscious effort to plan and implement programmemes that will enable the institution to achieve its objectives. Accordingly, there is a need for a 'proactive *waqf* administration with capable and committed personalities in its leadership' (Sadeq, 2002: 149). Without this precondition, a *waqf* would neither alleviate poverty nor help in the socio-economic development of a community. Further, given that *waqf* funds are actually funds that belong (to some extent) to the community it is important for the institution to exhibit credibility and integrity in its activities and its management of the funds. Of more importance, perhaps, is to ensure its continuity. This can only happen if the organization is financially sound. Herein lies the significance of accounting. Adnan (2005) argues that *waqf* may be regarded as either a social organization or a commercial enterprise. The latter stems from the fact that investments by *waqf* authorities as well as the rent charged on *waqf* properties should be driven by the profit motive. Thus, the hybrid nature of *waqf* provides an interesting dimension on accounting for such organizations.

It is imperative that a donor or a contributor to a *waqf* knows what the funds have been used for and whether the funds have been disbursed to the appropriate beneficiaries. The importance of providing assurance to the *wāqif*s that the money they have contributed has been properly managed and used for the relevant beneficiaries cannot be overemphasized. Given that the well being of an organization is generally interpreted in terms of its financial performance, proper accounting practice is essential. Prior studies on *waqf* institutions in Malaysia have largely focused on their accounting disclosure practices (Rokyah, 2004; Hisyam, 2005). Ihsan and Shahul's study (2007) was a commendable effort to develop a reporting framework for *waqf*s. Their

framework was adapted from the Statement of Recommended Accounting Practice (SORP, 2005) issued by the Charity Commission (under the auspices of the Accounting Standards Board). No published study, to the authors' knowledge, has actually examined the *performance* of *waqf* institutions in Malaysia. Our study examining the performance of the International Islamic University's *Waqf* Fund (IIUMWF) is a humble attempt to address this lack. More specifically, there are three primary objectives of the study. The first is documenting the development of the IIUMWF since its inception in 1999 to the present. The second focuses on examining the disclosure practices of the IIUMWF. Finally, we examine the performance of the IIUMWF by computing various efficiency ratios. Given the mounting reports on the mismanagement of funds in religious and charitable organizations in general and the mounting scholarly interest in *waqf*s, this study of the accounting and management practices of *waqf*s is timely for several important reasons. First, earlier studies of the accounting practices of religious organizations have rarely focused on the institution of *waqf*. Secondly, the growing scholarly interest in the management (or mismanagement) of *waqf* funds is an issue that should be addressed through empirical work. Finally, the results of our study may provide a platform for future studies on *waqf*.

The remainder of the paper is structured as follows. Section 2 describes the development of the IIUMWF. The concept of accountability from an Islamic perspective (on which this study is based) is discussed in Section 3, while Section 4 elaborates on the disclosure framework for *waqf*s as well performance measurement aspects. Section 5 describes the data collection and discusses the results of the study. Section 6 presents the conclusions together with the limitations of the study, and suggestions for future research.

II. Development of the IIUMWF

The IIUMWF was established in March 1999 with initial funds of RM 3.5 million provided by the Malaysian government. The initial funds were in part used to finance the cost of living of needy students at the International Islamic University Malaysia (IIUM), with the balance being invested (to generate income). The noble vision of IIUMWF is to create a global *ummatic* network. Its mission includes strengthening Muslim brotherhood, building international networking, as well as providing financial support to needy students of IIUM. It is indeed interesting to note that the IIUMWF is not registered as a *waqf*, primarily because the university does not want the funds to be managed by the State Religious Council (SRC). This is not

surprising given that the results of prior studies examining the management and accounting practices of religious organizations have not been positive (*e.g.* Laughlin, 1988; Booth, 1993; Duncan *et al.*, 1999; Bowrin, 2004; Rokyah, 2004; Hisyam, 2005). However, it must be emphasized here that the IIUMWF, even though it not registered as a *waqf*, is a *waqf* in every sense of the word.

2.1. The 5-year plan

The 5-year strategic plan started with ensuring that the public knows of the existence of the Fund as well as its vision and mission. This involved establishing contacts with individuals and corporate bodies locally and internationally. The first year also saw IIUMWF executing its 'charity starts at home' programme. Staff of the university were encouraged to donate to the IIUMWF through monthly salary deductions. The second year focused on getting the help of corporations (that provide services to IIUM) to participate in the RM 1 campaign. The Foster Parents Programme was also initiated in the second year. Programmes in the third year concentrated on internationalization. This was when the IIUMWF solicited donations for its Foster Parents Programme from individuals and companies in Africa, the USA, various ASEAN countries and the Gulf states. The fourth year plan was to embark on business and investment activities. In fact, the funds that the former rector, Dato' Dr Abul Hamid Abu Sulayman, donated were invested in a unit trust, the KL Mutual (Ittikāl) Fund. The plan in the fifth year was to invest the *waqf* funds in real estate.

2.2. Funds raised

As alluded to earlier, the initial fund to set up the IIUMWF came from the Malaysian government. The voluntary monthly salary deduction from staff of IIUM provides additional funding for the various projects of the IIUMWF. Further, the IIUMWF's RM 1 campaign (started since 2000) constitutes another source of funds. Funds obtained from donors for the *Kafālah* (Foster Parents) programme is another source of funds for the IIUMWF. It is of interest to note that the IIUMWF also recruits agents to solicit donations and these agents are paid commissions on the funds raised.

2.3. Programmes

There are various activities undertaken by the IIIUMWF. The *Kafālah* (Foster Parents) programme invites donors to sponsor the cost of maintaining a student at IIUM (estimated to be RM 350 a student per year). The donor may opt to bear the cost of just one student for the duration of the student's

stay at IIUM or to sponsor different students for different years. There is also flexibility in the amounts donated starting from a minimum of RM 70 to a maximum of RM 350 per student. In order to alleviate the financial burden of some students, the IIUMWF also assists students to find work, usually as support staff in campus. This enables them to earn pocket money to sustain their stay at IIUM.

2.4. Management of the IIUMWF

The Executive Board (henceforth referred to as the Board), headed by the Honourable Rector, is the highest decision making authority of the IIUMWF. The Board comprises the Deputy Rector (Academic), the Deputy Rector (Research and International), the Deputy Rector (Students), the General Manager of the IIUMWF, the Finance Director, the Director of the Management Centre, a representative from the Alumni and a senior member of academic staff. Additionally, there is an Investment Committee headed by a finance professor that oversees the investment activities of the IIUMWF. The Board as well as the Investment Committee holds meetings three times a year or whenever there is a need.

2.5. Accounting practices

The accounts of the IIUMWF are handled by a qualified accountant (a graduate of the International Islamic University Malaysia). Stakeholders are accordingly assured of satisfactory accounting practices being adopted by the Fund. However, because the IIUMWF is relatively young, to date the accounts have not been disseminated to the public. However, an interview conducted in late April 2007 with the Finance Manager, Sister Norain, revealed that the 2006 accounts would be available to the public once they have been audited and then endorsed by the Board.

III. Accountability

A description of the Islamic concept of accountability naturally precedes any discussion on the accounting practices of any Islamic religious organization. From the Islamic perspective, accountability surfaces from the concept of *amānah* (trust) (Al-Faruqi, 1992). *Amānah* is related to another important concept in Islam, *khilāfah* (vicegerency). The Islamic sense of accountability is different from that which is generally understood in the West.

In Islam, accountability is viewed from two different perspectives: man's accountability to God, and man's accountability to other men (*i.e.*

society). Thus an individual worships God and executes all his duties as a *khalīfah* (vicegerent). This constitutes his primary accountability. Secondary accountability is established through a contract between people. More importantly, the individual's relationship with other individuals mirrors his relationship with God. One can also regard the transcendent accountability to God as the 'vertical' accountability and the accountability to other individuals as the 'horizontal' accountability. Examples of the latter include agency contracts between owners and managers, contracts between employers and employees or contracts between superiors and subordinates (Shahul, 2000). Further, under the concept of *khilāfah*, the ownership of resources is a trust or *amānah*. Thus, any financial resources made available to the *waqf* are made in the form of a trust (*amānah*) and what is pertinent with respect to accountability is the relationship that arises between the *wāqif* (the provider of the *waqf* funds) and the *mutawallī* (trustee) and also between the *mutawallī* and the public. It is this accountability relationship that is of importance in our study. More importantly, the dissemination of accounting information can be regarded as an important mechanism through which major elements of the duty of accountability may be discharged.

IV. Accounting Practices and Performance Measurement of Charities

There are two pertinent aspects that one needs to address when examining the institution of *waqf*s. The first focuses on disclosure practices, the second on assessing performance. While accounting for Islamic banks is regulated and standardized to some extent (*e.g.* standards promulgated by AAAOIFI), accounting for *waqf* is still in its infancy. This led Ihsan and Shahul (2007) to suggest that, perhaps, the Statement of Recommended Accounting Practice (SORP, 2005) issued by the Charity Commission (under the auspices of the Accounting Standards Board) be adopted and adapted for the accounting of *waqf* institutions. Their framework, developed on the basis of SORP 2005, is discussed later.

4.1. Disclosure

The disclosure practices of a *waqf* institution are significant for several important reasons. First, a contributor to the *waqf* is generally interested in knowing about the financial health of the organization so that its continuity is assured. Second, a donor would also be interested to know whether the funds have been properly disbursed to the intended beneficiaries. Thirdly, the community has the right to know how the funds have been used and how such funds are managed. Fourthly, and more importantly, the

mutawallī (trustee) should ensure that the *waqf* funds have been managed in accordance with the wishes of the *wāqif*.

Is an annual report important for a charitable organization such as the *waqf*? According to the guidance statement on charity accounts (The Charity Accounts Framework, 2007: 7), an annual report represents

> an important milestone in a charity's life, a chance to take stock of how the year compared to the trustees' plans and aspirations, a time to celebrate successes and achievements, and to reflect on difficulties and challenges. The Annual Report is also an opportunity to highlight the benefit to the public of the charity's activities. Its audience is not just trustees and members, funders, donors and beneficiaries, but also the wider public who have an interest in what charities do and what benefits they bring to the community.

Further, a good annual report should be informative. It should indicate the charity's aims and how it sets out to achieve them. Additionally, the annual report should provide "a balanced view of the charity's structure, aims, objectives, activities and performance" (The Charity Accounts Framework, 2007: 7). Accordingly, it is imperative that *waqf* institutions prepare annual reports for the benefit of their stakeholders. Ihsan and Shaul (2007) argue that SORP 2005 would provide a good basis on which to develop the framework for the reporting of *waqf*.

The Charity Accounts Framework (2007) suggests that all charitable organizations keep and retain accounting records for at least 6 years, prepare annual accounts and most importantly, make the accounts available to the public on request. Charity accounts may be prepared either using the receipts and payments basis or the accruals basis. The former is only applicable where the charity has a gross income of not more than £100,000. A charity with a gross income exceeding £100,000 must prepare the balance sheet, a statement of financial activities (SoFA), a cash flow statement and explanatory notes to the accounts.

However, financial information alone does not discharge the accountability of a *mutawallī*, satisfactorily. As SORP 2005 indicates:

> accounts have inherent limitations in terms of their ability to reflect the full impact of transactions or activities undertaken and do not provide information on matters such as structures, governance and management arrangements adopted by a charity.

Accordingly, the Trustees' Annual Report is an important document in the annual report of a charitable organization. Similarly, in the case of *waqf*, the *,utawallī's* Report is necessary in order to clarify important issues not dealt with in the accounts. In particular, the *mutawallī's* report provides a fair review of the *waqf*'s structure, its aims, objectives, activities and performance. It is this report that will indicate to a user the progress made by the institution and whether it has met its various objectives. Additionally, the *mutawallī's* report will also include the governance and management structure of the *waqf*. Table I presents the reports and information that are relevant in the annual reports of a *waqf* institution.

Table 1: Annual Report: *Waqf*

	Annual Report: *Waqf*
i	Balance Sheet
ii	Statement of Financial Activities (SoFA)
iii	Cash flow statement
iv	Notes to the accounts
v	Mutawallīs' Report
vi	Other matters
	names of mutawallīs and their qualifications
	names of advisers and their qualifications
	the organization structure
	how the mutawallis have been appointed
	the decision making process
	the objectives of the *waqf*
	the activities undertaken
	the achievements in relation to objectives
	any other matters that may help the user to assess the progress and performance of the *waqf*

4.1.1. *The balance sheet*

The funds of the *waqf* should distinguish between a general *waqf* (*waqf ʿāmm*) and a specific *waqf* (*waqf khāṣṣ*). Additionally, following SORP 2005, assets should be classified as functional and non-functional assets. Functional assets are used for charitable purposes such as a mosque that is being used primarily for communal prayers. Non-functional assets refer to investments of the *waqf* funds (Ihsan and Shahul, 2007). Table 2 presents a summary of the assets and categories of funds to be presented by a *waqf*.

Table 2: Balance Sheet

Balance Sheet	
Assets	**Funds**
Functional Assets Non-functional Assets	Waqf am Waqf khas Endowment

4.1.2. *SoFA*

The Statement of Financial Activities (SoFA) presents the net inflow or outflow of resources of the *waqf* institution. In the SoFA it is useful to analyse all incoming resources according to the particular activity that generates the particular income. For example, funds raised through agents should be separated from income obtained through voluntary 'direct' donations from the public. Four categories of income are pertinent to a *waqf*: donations, income from investments, funds raised by the *waqf* institution and 'others'. The third refers to specific activities undertaken by the organization to raise funds including engaging agents. The last is a category to ensure that all income other than the first three is 'captured' in the accounts. It is important for the *waqf* institution to separate this income primarily in order to satisfy the community's need to know how the funds of the *waqf* were obtained. Additionally, distinguishing the four categories of income would also enable the organization to compute various efficiency ratios when assessing the performance of the *waqf*. (This will be further elaborated in a later part of the paper.) Income should also be further categorized into Restricted, Unrestricted and Endowment income. We term this the secondary income categories (see Table 3).

Ihsan and Shahul (2007), following SORP 2005, suggest that there are three types of expenditure incurred or resources expended by the *waqf* institution: costs of generating funds, costs of charitable activities and governance costs. Similarly, Sorensen and Kyle (2007) propose that expenses be categorized into fundraising expenses, programme services costs and management and general expenses. Costs of generating funds include the commission given to agents in raising funds. Costs of charitable activities are funds expended to beneficiaries while governance costs are operational costs in managing the *waqf*. Distinguishing expenses into these three categories may enhance the accountability of the *mutawallī*. However, we are proposing that the expenses be grouped into four main categories:

programme expenses, management or governance costs, fund raising costs and 'others'. We also suggest that *waqf*s attempt to relate expenses of raising specific funds to the particular income generated. This will, to some extent, help the user of accounts to determine the efficiency of the *waqf* institution (discussed later). Table 3 provides a useful summary of the categories of income and expenses for a *waqf* institution.

Table 3: Statement of Financial Activities (SoFA)

Statement of Financial Activities		
Income		**Expenses**
Primary Income Categories	**Secondary Income Categories**	
Voluntary donations Funds raised through specific activities Investment Income Others	Restricted Unrestricted Endowment	Programme Expenses Management Expenses Costs of Fund Raising Others

4.1.3. *Cash flow statement*

The cash flow statement records the flow of cash and cash equivalents into and out of the organization during a particular accounting period. Additionally, the statement allows users to understand how the organization operates, where its money is coming from, and how it is being spent. SORP 2005 requires charities to prepare cash flow statements in accordance with FRS 1.

4.1.4. *Explanatory notes*

Similar to commercial organizations, the notes to the account generally indicate the basis on which the accounts have been prepared. As for charities in the UK, the accounts are normally prepared in accordance with SORP 2005 and using historical costs. The trustees should also indicate the accounting policies adopted in dealing with material items.

4.1.5. *The Mutawallī's report*

The *mutawallī's* report provides information that the financial accounts do not include. A good *mutawallī's* report should explain what the

organization is trying to do and how it plans to embark on its activities. Thus, the report will enable stakeholders to assess whether the *waqf* is achieving its objectives. A good report will also include a description of the organization's governance and management structure. This will enable the user to understand how the accounting numbers link to the organizational structure and activities of the *waqf* institution. Also recommended is the inclusion of matters such as the names of the *mutawallī*s and advisers and their qualifications, the organization structure, how the *mutawallī*s have been appointed, the decision-making process, the objectives of the *waqf*, the activities undertaken and any other matters that the *mutawallī*s deem necessary to be included in the report. Such information will ensure that stakeholders are well informed about the *waqf.*

4.2. Performance measurement

The concept of performance in charitable organizations is rather complex. According to Wise (2001), the '3Es' of performance – economy, efficiency and effectiveness – would be a useful way to assess not-for-profit organizations. In order to do this, it is necessary to determine the objectives of the organization, the resources used (inputs) and the outputs achieved. The relationship between the objectives and inputs used is a measure of economy. The relationship between inputs and outputs is a measure of the efficiency of the organization, while the association between outputs achieved and the organization's objectives is a measure of its effectiveness. Since the objectives of the organization may not generally be quantifiable, it leaves us with determining the efficiency of the institution of *waqf* although it must be emphasized that *waqf* management must embody the values of efficiency and effectiveness.

Keating and Frumkin (2001) suggest that the efficiency of a not-for-profit organization can be measured by calculating the ratio of Programme Expenses to Total Expenses. The authors, however, did not provide a benchmark against which the ratios could be compared. Sorensen and Kyle (2007) that indicated that the ratio should be at least 65% (Better Business Bureau's Wise Giving Alliance Standard 8). The primary reason for this is that charities are not supposed to hoard funds. A low percentage is an indication that either the *waqf* institution is not disbursing enough funds to the rightful beneficiaries or that operational expenses are too high. This is a signal for further investigation. Another ratio to assess efficiency is (Rental

Revenue–Rental Expenses)/Rental Revenue. Given that a large proportion of *waqf* properties are leased, this is a useful ratio to compute, particularly for *waqf*s that manage a large number of properties. A low percentage could mean that there have been excessive repairs or rents charged do not accord with market rents. Either of the reasons would indicate further investigation. Yet another ratio that is pertinent in assessing *waqf*s is Investment Income/Average Investment. The *Mutawallī* should ensure that adequate and proper returns are obtained on investments. Besides getting contributions from the public, *waqf* institutions do generally embark on fund-raising activities and such activities are not without costs. Accordingly, a useful ratio to compute is the Total Fund Raising Expenses to Total Related Contributions. This ratio should not be more than 35% (Sorensen and Kyle, 2007, quoting the Better Business Bureau's Wise Giving Alliance Standard 9). Table 4 presents the summary of the ratios that can be used to measure the efficiency of a *waqf*.

Table 4: Performance Measurement of Waqfs

Efficiency Ratios	
(i)	Programme Expenses/Total Expenses (at least 65%)
(ii)	Rental Income-Rental Expenses)/Rental Income
(iii)	Investment Income/Average Investment
(iv)	Total Fund Raising Expenses/Total Funds Raised (not more than 35%)

Given the importance of assessing the performance of *waqf*s, we suggest that these four ratios be disclosed in the annual report of *waqf*s (where applicable). This would, to some extent, enable the stakeholders to determine if *waqf* funds have been properly managed.

V. Data Collection and Analysis

Generally, the choice of method depends on the objective of the study, the current state of knowledge regarding a particular phenomenon, the environment in which the study is to be conducted and the conditions under which the research project is to be carried out (Yin, 1989).

Yin (2002) defines a case study as empirical research investigating a contemporary phenomenon within its real-life context. While experimental research and surveys involve the development of hypotheses and subsequent testing of these hypotheses, case research often proceeds in the reverse

direction; data collection precedes and forms the basis for the generation of the hypotheses (Brownell and Trotman, 1988). The case study represents an in-depth, longitudinal examination of a phenomenon. Consequently, the researcher gains a better understanding of the 'how', 'what' and 'why' of a particular issue under study. Additionally, using the case study to examine the management and accounting practices of a particular *waqf* will provide better insight into managerial and organizational issues. According to Yin (1989), the case study approach enables the researcher to describe, understand and explain the phenomenon of interest. However, one criticism often levelled at the case study approach is that the results are not generalized. To this, Yin (1994) counters that in case study research, the generalization of results is typically made to the theory and not to the population. Following this strand of argument, and given that the aim of this study is to document a particular *waqf,* the case study method of data collection is used.

5.1. The IIUMWF

The total funds, since its inception in 1999 to December 2005, stand at about RM 11 million. To date two former rectors of IIUM have donated substantial sums to the IIUMWF. Dato Dr Abdul Hamid Abu Sulayman, the second Rector, donated his monthly salary while Tan Sri Kamal Hassan donated a piece of land. With such exemplary behaviour from top management, it is not surprising that salary deductions and the RM1 campaign have received favourable support from the staff of IIUM.

5.2. Disclosure

We examined the accounts of the IIUMWF from 2003 to 2005. As indicated earlier, to date, the accounts of the IIUMWF have not been made available to the public. However, we were told that the 2006 accounts will be made available to the stakeholders following auditing and then endorsement by the Board of the IIUMWF in the middle of this year. Incidentally, the accounts of the IIUMWF are subject to both internal and external audits.

Examining the accounts revealed some interesting points. The IIUMWF's accounts that are available to the public are the ones that have been consolidated with the university's accounts. However, the IIUMWF does prepare yearly accounts for internal use. There are three financial reports prepared by the IIUMWF annually: the balance sheet, the 'trading and profit-and-loss account' and the cash flow statement. Explanatory notes

to the accounts were not evident; nor was a *mutawallī's* report prepared. Given that the accounts are not in the public domain, the non-existence of both the explanatory notes and the *mutawallīs'* report is understandable. However, given that *waqf* funds are public monies, IIUMWF should endeavour to prepare the *mutawallī's* report.

5.3. The balance sheet

The IIUMWF's balance sheet does not distinguish the various incomes into Endowment Funds, Restricted Funds and Unrestricted Funds (as proposed by Ihsan and Shahul, 2007 and SORP 2005). However, the investments made out of the funds from the Dato' Dr Abdul Hamid Abu Sulayman's Funds were clearly indicated as such in the 2003 balance sheet. The separation between functional and non-functional assets was also not evident; no doubt this is due to the IIUMWF not having any functional assets at the moment.

5.4. SoFA

It is interesting to note that the IIUMWF has indicated that it has prepared a 'trading and profit-and-loss account', thus, regarding the Fund as a commercial entity. Following SORP 2005's proposal and Ihsan and Shahul's (2007) suggestion, a Statement of Financial Activities (SoFA) would, perhaps, have been a more appropriate statement.

5.5. Income

The income of the IIUMWF is generally grouped into various categories as presented in Table 5 (Panel A). However, the income does not distinguish between restricted income, unrestricted income and endowment funds. Further, given that the IIUMWF engages agents to raise some of its funds, one would expect the 'donations and collections' category to be separated into the funds raised by agents and voluntary 'direct' donations. Separating the funds in this manner would enable stakeholders more easily to determine the ratio of fund raising expenses to total funds raised. This will be further clarified in a later part of the paper.

In 2004, the total income increased by 90% (from 2003) while the 2005 income posted a 25% decrease (as compared to 2004). Examining each category in turn revealed that the income from business activities, the *Kafālah* (foster parents) programme and the RM 1 campaign showed an

increasing and healthy trend throughout the three years. The big jump in the 'others' category in 2004 is actually due to the gain in sale of investments in that year. Interestingly, in 2005, there is also another source of income, namely '*Āmil* income,' shown in the accounts. This represents the income that the IIUMWF gets from being the '*Āmil*' for *zakāt* collection and provides a very important source of income for the IIUMWF.

5.6. Expenses

As far as the resources expended, there was no effort to categorize the various expenses into programme activities, fund-generating expenses, management or governance and 'others'. The last is, of course, the 'catch all' category. Generally, it is this category that should have explanatory notes listing all the expenses that have been included. Because all the expenses were merely put as a list of expenses in the 'trading and profit-and-loss account' we anticipate that it would be difficult for us or any stakeholder to compute the various efficiency ratios. We then proceeded with grouping the various expenses into three main categories: fund-raising expenses, programme-expenses and 'others' (see Table 5, Panel B) to enable us to compute the efficiency ratios later. However, we were later informed that the IIUMWF will group its expenses into seven main categories in the near future. These categories are emoluments, administrative expenses, fund-raising costs, human resource development costs, programme-expenses (assistance to students), contingency expenses and the catch all category of 'others'.

5.7. Explanatory notes

Explanatory notes, particularly on the core activities of the IIUMWF, were non-existent. For example, the number of students that were given assistance each year was not included. As a stakeholder, this is one piece of the information that is of special interest. Further, the basis on which the accounts were prepared was not indicated. For example, are the accounts prepared on the basis of historical costs or current values?

5.8. The Mutawallī's report

The IIUMWF does not include any *mutawallīs*' report with its accounts. This is primarily because the accounts are currently not made available to the public. It would be interesting to see if the *mutawallīs*' report is included in the 2006 and subsequent year's accounts.

Table 5: Balance Sheet

Panel A

Income		**2003**	**2004**	**2005**
Donation and collections	RM	1,513,830	2,998,538	2,116,296
Business Activities		33,627	34,230	55,351
Kafalah		41,547	53,176	62,312
RM 1 campaign		16,085	20,568	29,897
Others		8,551	62,353	17,658
Dividends		347,751	548,918	494,838
Amil income				21,526
Total		1,961,392	3,717,783	2,797,879

Panel B

Expenses		**2003**	**2004**	**2005**
Fund raising expenses	RM	50,000	50,000	0
Programme Expenses (Students' assistance)		782,805	1,601,988	919,676
Others		1,514,652	642,582	1,651,756
Total		2,347,457	2,294,570	2,571,432

5.9. Performance

The core programme of the IIUMWF is to assist needy students of the IIUM. As presented in Table 6, three ratios to assess the efficiency of the IIUMWF were computed. The recommended percentage of at least 65% for programme Expenses/Total Expenses, as suggested by Sorensen and Kyle (2007), was only evident in 2004. Both 2003 and 2005 percentages are well below 65%. The low percentage could mean that there were not many students requiring assistance in 2003 and 2005. Alternatively, it could also mean that the expenses of the IIUMWF are much too high. The latter, is undoubtedly, a cause for concern. The programme expenses primarily refer to the amounts disbursed to needy students of the IIUM.

Although the return on investments ranging from 4.7% to 6.7% appears low, this may be due to the conservative policy of the Investment Committee in focusing on investments with lower risks. Given that the IIUMWF has no *waqf* property and that it has not invested in any real estate, the ratio of Net Rental Income to Total Rent is not applicable. However, we were told that the IIUMWF is seriously considering investing in real estate in the very near

future. It would seem that the IIUM has not achieved its goal of having real estate in the fifth year of its inception.

The IIUMWF also engages agents to raise funds. In 2003 and 2004, the agents' commission amounted to RM 50000. As indicated elsewhere in the paper, the IIUMWF did not attempt to separate the funds that were raised through agents and 'direct' voluntary donations. As such, in computing the ratio of Fund Raising expenses to Total Funds raised, we used the total funds under 'donations and collections'. Thus, the 3.3% in 2003 and 6.7% may not be a good indication of this efficiency ratio. The information disclosed would have been more informative if we could calculate this ratio using just the funds raised by the agents. Additionally, it would be more useful if ratios for each particular income fund raised could be compared with the expenses incurred in generating that fund. This would enable stakeholders to assess how efficient the IIUMWF is in raising a specific income. For example, the expenditure on advertising and soliciting the Kafālah income should be matched with that particular income.

Table 6: Performance Analysis

Performance Efficiency Ratios	**2003**	**2004**	**2005**
Programme Expenses/ Total Expenses	33.33%	69.82%	35.77%
Investment Income/ Average Investment	4.70%	6.70%	5.20%
Total Fund Raising Expenses/ Total Funds Raised	3.30%	1.70%	*

Note: '*' No agent's commission indicated

While there are various other ratios that can be computed to assess the efficiency of the *waqf* fund, we have chosen to focus only on the above three ratios. We were also told that the IIUMWF in fact calculates two ratios annually. The first is Total Management Expenses to Total Donations and Collections and the second is Programme Expenses (amounts disbursed to needy students) to Total Donations and Collections.

VI. Conclusion

Our empirical work examining the accounting and management practices of IIUMWF revealed that its structure, governance and management practices appear sound. Its performance from 2003 to 2005 is satisfactory

with a return on investments ranging from 4.7% to 6.7%. Its income is promising particularly income from the RM 1 campaign and the Foster Parents' Programme (kafālah). However, its disclosure practices need further improvement. This is understandable since there are currently no guidelines or standards for accounting for *waqfs*. The framework suggested by Ihsan and Shahul (2007) and extended in this study, is a good start to having a consistent basis of reporting by *waqf* agencies in Malaysia as well as in other countries. More importantly, the accounts of the IIUMWF should be made readily available to the public. The public has every right to know how *waqf* funds are managed and disbursed. It is for this purpose that an annual report is pertinent for *waqf* institutions. In an unregulated environment, the management of *waqf*s will be wholly dependent on the *mutawallīs*. Thus, the *mutawallī's* report is one document that needs to be prepared by *waqf* institutions. Given that the Islamic concept of accountability emphasizes the proper discharge of accountability, a detailed *Mutawallī's* report is imperative. This is clearly absent in the case of the IIUMWF.

The existence of an Executive Board and having a committee to oversee the investments made by the IIUMWF is some indication that governance is not an issue at the IIUMWF. However, this fact is not reported to the public. Even the website does not include such information. Further, an established organization such as the IIUMWF should have an updated website. This is important if the IIUMWF wants to achieve its vision of 'creating a global *ummatic* network'.

On the issue of disclosure, it must be emphasized here that there is an urgent need for a standard on *waqf* accounting to be developed. The existence of a standard will reduce, to some extent, the diversity of accounting practices across *waqf*s. This, in turn, will make it easier for a user to assess the performance of each *waqf*. Additionally, this will also make it easier for comparisons to be made between *waqf*s. To this end, the effort of the AAOIFI to come up with a standard for *waqf* accounting in the very near future is, indeed, commendable.

While it has often been suggested that not-for-profit organizations be assessed on their economy, effectiveness and efficiency, we have only focused on the last. This is clearly a limitation of our study. Future studies should make an attempt to measure the economy and effectiveness of the *waqf* agency. Further, the framework developed by Ihsan and Shahul (2007) is based on how a *waqf* can best discharge its duties under accountability. Thus, the framework developed is based on the normative that is on what

users ought to desire. However, what users actually find relevant may not accord with what they ought to desire. As such, another interesting study would look at users' need for accounting information of *waqf* institutions. Finally, the increased scholarly interest in *waqf*s is certainly a good indication that *waqf*s will figure prominently in Islamic societies in future. Accordingly, a study gauging the *ummah's* awareness on the role of *waqf*s would be a research worth embarking upon.

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