Financial sustainability of state \textit{waqf} institutions (SWIs) in Malaysia

Maliah Sulaiman and Muntaka Alhaji Zakari

\textit{International Islamic University Malaysia Kulliyyah of Economics and Management Sciences, Selangor, Malaysia}

Abstract

Purpose – This paper aims to measure the financial sustainability and vulnerability of state-managed \textit{waqf} institutions in Malaysia.

Design/methodology/approach – The study mainly applied the commonly used Tuckman and Chang's (1991) model to measure the financial health of non-profits. Content and ratio analysis of the 2014 audited reports of seven institutions were used to determine their equity balance, revenue concentration, administrative costs and operating margin ratios.

Findings – The results indicate that only one \textit{waqf} institution was financially sustainable in all the four components.

Research limitations/implications – Because the data used are not the latest and focussed only on a single year, the findings may not be necessarily true, currently. Second, the study focussed only on Malaysia. Thus, the results may not be generalisable to other \textit{waqf}s in other countries or to privately managed \textit{waqf} institutions. Accordingly, future research should address these limitations.

Practical implications – The findings provide useful insights into the financial sustainability of \textit{waqf} institutions and highlight the need for policymakers in Malaysia and other Muslim countries to give due attention to the holistic accountability of \textit{waqf} institutions to ensure \textit{waqf}'s systematic revival.

Originality/value – The paper, being the first to investigate the financial sustainability and vulnerability of state \textit{waqf} institutions in Malaysia, serves as a reference for future researchers.

Keywords Effectiveness, Sustainability, Malaysia, \textit{Waqf}, Efficiency

Paper type Research paper

Introduction

\textit{Waqf}, a perpetual voluntary charitable act (Sadeq, 2002), is one of the mechanisms in the Islamic economic system set, among others, to promote equitable and just distribution of wealth. This form of charity assures the donor a continuous reward in the afterlife for as long as the useful years of the underlying asset remain. The contributions of \textit{waqf} in the political and socio-economic growth and development of Muslim countries and communities over the years were so pertinent that it has been labelled as the most visible evidence of charity in Islam (Singer, 2008). More importantly, \textit{waqf} assets were instrumental in providing the social and economic safety valves through their role in promoting religion, education, shelter, health, food security and rural-urban transformation. In the tenth century, \textit{waqf} replaced \textit{zakat} as the vehicle for financing socioeconomic development in Islamic societies (Marshall 1974 as cited in Singer, 2008). More importantly, \textit{waqf} institutions have played a positive role in contributing to the socio-economic development of countries such as Kuwait, Malaysia, Egypt and others (Khalil \textit{et al}., 2014).
Despite its overwhelming role in supporting social, cultural, economic and religious functions (Adnan et al., 2007; Hassan and Abdus Shahid, 2010), previous studies reveal that the history of waqf has been tempestuous (Bremer, 2004; Çizakça, 1998; Osman, 2010). Vast waqf lands and properties were and still are at the mercy of mismanagement, corruption, abuse, misuse and total neglect (Ariff, 1991; Bremer, 2004; Hassan and Abdus Shahid, 2010; Hoexter, 1998). Given this, it is interesting to examine if, indeed, the same holds true for state-managed waqf institutions (SWIs) in Malaysia. More specifically, our study attempts to measure the financial sustainability and vulnerability of SWIs in Malaysia. This is essential to the continuous existence and operation of these institutions. Most pertinently, given that a waqf’s perpetual existence lies in its financial strength, determining its financial health is indeed crucial. The study contributes to existing literature in several important respects. First, the financial sustainability and vulnerability model applied here can also be adopted to determine the financial health of other waqf institutions. Second, prior work examining performance of religious organisations has rarely focussed on the institution of waqf. Third, the growing scholarly interest in the management (or mismanagement) of waqf 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 rest of the paper is organised as follows. The next section provides the literature review, followed by an overview of waqf management in Malaysia. The next section discusses the concept of accountability and its importance for waqf, followed by a section that focusses on data collection and the findings. The last section concludes.

**Literature review**

Financial health is crucial to the continuous existence and operation of any organisation. It is even more essential in the case of waqf because productive endowed assets are left idle due to insufficient revenue to sustain operational costs (Chowdhury et al., 2011). Prior studies on waqf focussing on the management aspects of such organisations concentrated on contemporary managerial, administrative and governance issues. The results of such studies highlighted the poor structure, mismanagement, corruption, abuse, neglect and other administrative lapses of waqf, which if not properly addressed will hinder the revival of waqf (Abdul Rahman et al., 1999; Mahamood, 2006; Zazli, 1998). Specific to accounting, previous research on waqf examined record-keeping and documentation, the need for the development of waqf accounting standards, accountability and transparency issues and performance of these institutions. Our focus is on the last strand of research-that is on accounting and accountability.

Abdul Rahman et al. (1999) explored the accounting and administrative practices in State Islamic Religious Councils (SIRCs). Their study found, amongst others, evidence of poor documentation and record-keeping, absence of sound accounting system and seemingly chronic accountability lapses. As a result, they called for improvement in the management of waqf and the establishment of proper accounting procedures. For better management of waqf, Marsoof (2004) also urged for the advancement in accounting standards and procedures. He made this recommendation following his discovery of poor management of waqf assets in his research on waqf administration in Sri Lanka. Extending the preliminary study of Abdul Rahman et al. (1999), Rokyah (2005) investigated the status of financial reports and the relationship between financial procedures and waqf accounting. Through this study, she determined the extent of waqf disclosure in SIRCs. In her findings, she noted the existence of overdue and out of date financial reports in most of the SIRCs. Additionally, very few of them had satisfactory level of disclosure. Affirming the recommendation of
Abdul Rahman et al. (1999), she advocated the need for proper reporting standards and guidelines. Yaacob (2006) conducted a case study of the Federal Territory SIRC to examine its waqf accounting practices in greater depth. The results of this exploratory and descriptive study revealed some degree of improvement in their accounting practices. Nonetheless, he lamented that there were no dedicated financial statements for waqf. Accounting for waqf was embedded in the accounts of the SIRC. To compound it all, his findings also depicted that there was no segregation of the various types of waqf. He then suggested that waqf accounting practices should be based on the Statement of Recommended Practices (SORP 2005) for charities in the UK. Concerned with the same accounting and managerial issues of waqf, a replication of this study was undertaken a year later by Ihsan (2007) to scrutinise the accounting practices of two Indonesian waqf institutions. His examination revealed the lack of uniform accounting practices between these two institutions. As a consequence of this, there were accountability and transparency lapses in the management and accounting of waqf. This led Ihsan and Adnan (2009) to propose the kind of information that should be provided by the mutawallis (trustees of the waqf) to various stakeholders. Essentially, they have suggested that reporting should be similar to that of UK’s Statement of Recommended Practices (SORP) for charities.

In response to the earlier calls for the proper accounting of waqf, Adnan (2005) took the challenge to develop waqf accounting standards. He suggested two alternative accounting and reporting frameworks for waqf accounting on the basis that waqf can operate either as a social organisation (non-profit) or as a commercial enterprise. In line with this, he asserts that it is appropriate to apply accounting for non-profit organisations to the former, whereas accounting for commercial organisations is more applicable to the latter. Still on accounting standards, Ihsan et al. (2006) undertook a comparative study between waqf and charities in the UK. Their findings suggested that some aspects of Charity Commission’s proposals such as internal financial controls, transparency and reporting, management of funds and code of good governance should be adopted for waqf institutions. Similarly, Adnan et al. (2007) shared their thoughts with regard to the development of a conceptual framework and accounting standards for waqf institutions. They based their opinions on a review of some related accounting standards on charity organisations that have been integrated with Islamic values. Given the uniqueness of waqf institutions, they proposed some particular accounting concepts (definition, recognition, measurement, presentation and disclosure) that align with AAOIFI’s Statements of Financial Accounting 1 (SFA 1). However, one must bear in mind that SFA 1 is specially developed for Islamic financial institutions.

Nahar and Yaacob (2011) undertook a study to empirically investigate the accounting, reporting and management practices of a Malaysian cash waqf management institution over a six-year period, from 2000 to 2005. Using archival documentation review and analysis, they found that the particular waqf institution in that study has discharged its accountability satisfactorily. However, they contended that there is more room for improvement. Hossein (2011) investigated the economic and operational efficiency of government and private-administered waqf in Iran. He measured these using two ratios: the ratio of disbursement to proceeds (which he termed the objective achieved index) and the ratio of the remaining balance for the year to total earnings (which they termed the expected income achieved index). The former measures the extent of achievement to which the institution is fulfilling its objectives, while the latter measures the degree to which the institution is able to maximise the generation and collection of waqf income while minimising uncollectable earnings. The findings revealed that privately managed waqf performed better than government-managed waqf. However, both failed to meet donors'
specified objectives. Sulaiman et al. (2009) documented the development of the International Islamic University Malaysia’s waqf Fund (IIUMWF) from its inception in 1999 to 2008 and its accounting practices. Additionally, they also examined issues on disclosure and performance of the IIUMWF. Specifically, the authors measured the efficiency of IIUMWF for the years 2003, 2004 and 2005 by focusing on three ratios: programme expenses to total expenses ratio, investment income to average investment ratio and the ratio of total fundraising expenses to total funds raised. Nahar and Yaacob (2011) assessed the accountability and transparency aspects of a cash waqf management institution. On the basis of the cash waqf’s return on investment having an increase by more than 100 per cent from 2003 onwards, they concluded that this is an indication of good management.

Evidently, a great deal of interest has been shown by researchers on waqf. However, there has been no single empirical study examining both financial efficiency and effectiveness of SWIs in Malaysia. In effect, there is no study measuring the financial sustainability and vulnerability of the SWIs. The study by Sulaiman et al. (2009) only focussed on one private waqf institution. More importantly, their study only examined the efficiency of the institution. Accordingly, the present study attempts to address this by looking at both the financial efficiency and effectiveness of SWIs through measuring their financial sustainability and vulnerability. Measuring the performance of waqf institutions may be regarded, in some way, as examining the extent the SWIs discharge their accountability. The next section elaborates on the concept of accountability.

Accountability of waqf institutions

Simply put, accountability is the provision of account of the actions for which individuals or organisations are held responsible. Thus, accountability relates to the required expectations and values which have been determined and expressed through rules, procedures and standards (Rabrenović, 2009). Similarly, in the context of waqf institutions, the waqf deed lays down the pre-established expectations of the waqif (donor or funder). Accordingly, the institutions are accountable for the management of waqf assets.

Other compelling reasons make accountability a necessary ingredient for the governance of waqf institutions. First, apart from the stipulations in the waqf deed, the institutions operate without any formal check and balance by the founder (in most cases, the founder is even a deceased). This fiduciary relationship coupled with the beneficiaries’ trust on waqf trustees warrant that accountability be discharged satisfactorily to ensure the continuity of the waqf arrangement (Laughli, 1996). Second, given the fact that waqf properties are for public benefit (Ihsan and Ibrahim, 2011), the public and other stakeholders deserve to be kept informed as to how resources are managed to yield greater benefit. Accordingly, accountability becomes the foundation for measuring, assessing and reporting trustees’ performance (Cutt and Murray, 2000). Last, waqf is a religious voluntary act motivated by one’s desire for recurrent reward hereafter. Despite this motivation, waqf institutions rely, to a great extent, on public confidence and trust for the continuous flow of support to sustain waqf activities. This necessitates that waqf institutions discharge their accountability adequately (Sinclair et al., 2013). This would, subsequently, boost the trust and confidence of donors and the public.

Researchers, donors, the public and other stakeholders are increasingly demanding to know what is actually happening to resources committed to charitable organisations, including waqf institutions (Iwaarden et al., 2009). For instance, funders and donors demand that charitable organisations be held accountable for the integrity, efficiency and impact of the funded programmes, while beneficiaries put pressure on the organisations to live up to expectation about the championing of socially determined development programmes.
instead of imposing their own priorities (Basri and Abdul Khalid, 2011). These demands present a challenge to the trustees to adopt and implement best practices in waqf. The trustees must therefore respond to this call by creating a reliable structure of accountability mechanisms that would enable waqf stakeholders to evaluate whether the entrusted tasks are being carried out in accordance with pre-established waqf deeds (Rabrenović, 2009). Osman (2010) argues that for waqf, holistic accountability is most pertinent. This form of accountability balances between upward (donors, funders, regulators, etc.) and downward (beneficiaries, community, etc.) accountability. It leads to the engagement and participation of beneficiaries and other constituents in running the waqf (Osman, 2010). The bottom-line is that waqf accountability should not be discriminatory; it should encompass all related stakeholders (Adnan et al., 2007; Ihsan and Adnan, 2009). More importantly, holistic accountability encompasses the concept of self-accountability. This self-accountability is the result of the manifestation of primary accountability to Allah. As humans, we are primarily accountable to Allah for all entrusted resources (vertical accountability) and also accountable to fellow humans (horizontal accountability) by virtue of our contractual relationships (Sulaiman et al., 2009).

Stewart (1984) classified areas of accountability into probity and legality, process, performance, programme and policy. The focus of this study is on performance accountability of the commercial activities of waqf institutions. As indicated elsewhere in the paper, waqf institutions are accountable for their financial performance as to the resources entrusted to them by donors (Ihsan and Adnan, 2009). Thus, performance is the result of instantaneous pursuit of effectiveness, efficiency and the economic use of entrusted resources (Mihaiu et al., 2010) for the maximisation of sustainable output to intended beneficiaries (objectives). Accordingly, the demonstration of accountability could be achieved through effectiveness and efficiency dimensions (Better Business Bureau, 2003; Sulaiman et al., 2009; Wahab and Abdul Rahman, 2015). Similarly, Connolly and Hyndman (2003) also argued that performance of non-profit organisations should be judged in terms of efficiency and effectiveness.

The efficient utilisation of entrusted funds has increasingly become an important dimension of charitable performance (Hyndman and McConville, 2016). Efficiency is defined as the degree to which a non-profit organisation channels its available resources to achieve its mission (Parsons, 2003). According to Ecer et al. (2016), efficiency refers to the fulfilment of an organisation’s mission at the lowest cost. An organisation is said to be efficient if it obtains maximum output with a given level of resources. Alternatively, it could also mean the use of minimum resources to achieve a particular level of output. Thus, efficiency is expressed as the ratio of costs to fulfilled mission (impact) (Mitchell, 2014). However, because measuring mission fulfilment is essentially subjective and difficult, charity rating agencies and scholars have mainly focussed on financial efficiency indicators (Ecer et al., 2016). The ratio of costs to impact and the financial efficiency indicators are respectively described as instrumental (costs per unit impact) and normative (ratio among costs) (Mitchell, 2016).

Unlike efficiency, effectiveness of charitable organisations appears to have multiple definitions and dimensions (Herman and Renz, 2008; Dart, 2010; Mitchell, 2012, 2016). Although a variety of effectiveness models have been offered (Mitchell, 2012), academic literature on effectiveness are largely conceptual, rarely empirical and without consensus on the operationalisation of the term (Lecy et al., 2012). Scholarship on the effectiveness of non-profit organisations emerged from its evaluation and the identification of correlates to a focus on processes (Forbes, 1998). Notwithstanding this diversity, prior studies have mainly used one or a combination of three main approaches, namely, the goal attainment approach, the systems resource approach and the reputational approach (Forbes, 1998). Most prior
research have largely focussed on the goal attainment approach (Herman and Renz, 1997). However, Lecy et al. (2012) argue that these models do not offer a novel view of organisational effectiveness. This may be attributable to the various types of non-profit organisations (Selden and Sowa, 2004) and the different effectiveness demands of their multiple constituencies (Herman and Renz, 1997). For example, Campbell and Lambright (2016) found that funders and providers of programmes consider the effectiveness of a non-profit organisation from various perspectives such as the impact of projects undertaken, the effectiveness of the management and the board and the effective use of partnerships and networks (Lecy et al., 2012).

Mitchell (2012), on the other hand, suggests that the effectiveness of a non-profit organisation can be based on either outcome accountability or overhead minimisation. While the former refers to the ability to demonstrate that the organisation is accomplishing its intended results or objectives, the latter is based on financial ratios consistent with the principles of normality. Efforts to evaluate the effectiveness of a non-profit organisation, on the basis of outcome accountability, are significantly impeded by the general lack of credible information throughout the non-profit sector (Mitchell, 2016). The absence of credible information is due to a myriad of factors such as the uncertainty of outcomes, the complexity of the measurement of these outcomes and the cost of high-quality programme evaluation (Eckerd, 2015).

Given the significant constraints of evaluating efficiency and effectiveness based on the instrumental approach, it is appropriate to use the normative approach as a measure for assessing effectiveness (Ritchie and Kolodinsky, 2003; Selden and Sowa, 2004). The normative approach uses ratios and financial indicators to determine the effectiveness of an organisation. Interestingly, the normative conception of efficiency is directly tied to the normative conceptualisation of effectiveness (Mitchell, 2016). Most importantly, efficiency and effectiveness are ultimately interrelated. There can be no efficiency without effectiveness as it is imperative for the organisation to excel in doing the right thing instead of doing well in the wrong direction (Mihaiu et al., 2010). Similarly, Webb and Abzug (2016) contend that measuring the effectiveness of any organisation would include examining its efficiency. Financially, efficiency and effectiveness, according to Ireland (1999), are primarily concerned with how the organisation can sustain its operations in delivering its mission. It therefore follows that the organisation’s financial health is dependent on its financial efficiency and effectiveness (Keating et al., 2005). Given the recent financial and economic constraints of non-profit organisations, the financial health of such organisations is indeed imperative. As a consequence of this, non-profit organisations are increasingly forced to develop strategies to improve their sustainability (Macedo et al., 2016). Non-profit organisations undertaking commercial activities are thus expected to use a business approach in managing and generating revenues from such activities so as to ensure their financial sustainability (Ritchie and Kolodinsky, 2003). Given that the sustainability of an organisation depends on its financial efficiency and effectiveness, we have adopted Tuckman and Chang (1991)’s framework to determine the financial sustainability of SWIs in Malaysia. Specific to waqf, it is important that the trustees (mutawallis) ensure that resources are used efficiently in discharging their responsibilities according to the waqf deed (effectiveness).

Overview of waqf management in Malaysia
In Malaysia, waqf is under the auspices of State Rulers. There are 14 states in Malaysia: Johor, Melaka, Negeri Sembilan, Selangor, Perak, Penang, Perlis, Kelantan, Kedah, Terengganu, Pahang, Wilayah Persekutuan, Sabah and Sarawak. The SIRCs assume
managerial and trusteeship mandates through delegated authority from their respective Rulers. This is further legitimised through various enactments. To date, almost all the 14 States have enactments/ordinances dictating the SIRCs as the sole trustee of *waqf* assets. To discharge their responsibility, each SIRC has established a dedicated *waqf* unit/division to carry out *waqf* related activities within its jurisdiction.

In addition, the *waqf* arm of the Department of *Awqaf*, Zakat and Haj (JAWHAR) provides financial and non-financial assistance (guidelines, funding and training) to SWIs. The department was commissioned in October 2004 as one of the departments under the Prime Minister’s Department. Its objectives are to enhance the quality of service delivery, reinforce *Awqaf*, *Zakat* and *Haj* for socio-economic development and to ensure good governance and the effective planning, coordination and implementation of government policies and development programmes for *Awqaf*, *Zakat* and *Haj* (Salleh and Muhammad, 2008). Because of its limitation as a government body to directly carry out *waqf* commercial activities, JAWHAR established the National Endowment Foundation (Yayasan Waqaf Malaysia [YWM]) to exclusively focus on this commercial aspect of *waqf* (Salleh and Muhammad, 2008). Today, YWM functions not only as the main national endowment foundation but also the coordinator of the activities of the SWIs. However, it must be noted that, JAWHAR and its YWM have no enforcement power over the SIRCs’ *waqf* organisations. The relationship between the SIRCs and JAWHAR with regards to *waqf* management and control is represented in the following structure.

As seen in Figure 1, the State Ruler’s delegated authority is exercised by the SIRC to manage and administer *waqf* properties. This led to the establishment of *waqf* units by SIRCs within their administrative structures. On the other hand, the right side of the diagram depicts the role played by JAWHAR through YWM. JAWHAR’s role is based on the government’s economic development commitment expressed in the Malaysia Plan (MP). The plan details Malaysia’s economic development plan over a five-year period. The role and the establishment of YWM were conceived in the Ninth Malaysian Plan (9th MP) as stated in paragraph 16.62, page 348 of the plan, as quoted below:

> *Waqf*, *baitulmal* and *zakat* resources will be appropriately mobilized towards enhancing the development of Bumiputera and other Muslims. During the planning period, emphasis will be given to develop *waqf* land within the commercial urban areas in the Johor Bahru, Klang Valley and Pulau Pinang. The development programme will involve integrated redevelopment of housing settlements with infrastructure and economic facilities, including business and industrial premises on *waqf* land. The Department of *Awqaf*, *Zakat* and *Haj* [JAWHAR] will coordinate the establishment of a new entity [YWM] with the participation of State Religious Islamic Councils to implement programmes to develop *waqf* and *baitulmal* land into viable economic investments and

![Figure 1. *Waqf* management structure](image-url)
thus, contribute to the development of the BCIC [Bumiputera Commercial and Industrial Community].

The Bumiputera development agenda through the development of waqf assets is one way of increasing the participation and ownership of Bumiputeras in the corporate sector. This is undertaken to minimise wealth disparity between the Bumiputeras and the non-Bumiputeras. The following excerpts indicated in the ninth MP attest to this claim:

Waqf land and properties under the state religious Islamic authorities will be developed to tap their productive potential as well as to spawn new entrepreneurs. [para 1.44, page 36].

Development of commercial assets such as hotel and business premises on waqf land will be expanded to increase Bumiputera ownership of non-financial assets. A strategic plan will be drawn up to ensure that the income generated from the development of waqf land will enable state religious authorities to be more self-reliant in developing new waqf land [pp. 64-65].

It is obvious from the above extracts that the motive of supporting the SIRCs is to allow the government to tap the vast asset potential of awqaf in the country for its poverty alleviation programme. The government, however, reiterated its commitment to devise a strategy for the SIRCs to be self-dependent in developing new waqf land. Salleh and Muhammad (2008) pointed out that waqf lands are leased to the government by the SIRCs for development activities. For these development activities, the government allocated RM250m in its ninth MP (2006-2010). To continue the execution of ten development projects under the ninth MP, the government, through JAWHAR, allocated RM72.76m in its first rolling plan under the tenth MP (2011-2015) for the period 2011/2012. Until 31 December 2011, a total of seven projects were completed, whilst three projects were expected to be completed in 2012 based on its second rolling plan (with a total allocation of RM36.87m). In its 2010 Budget Statement, the government allocated RM20m for the development of waqf lands within the premises of state mosques.

In sum, the management of waqf is carried out by the SIRCs which have been empowered by their respective state enactments as the sole trustees and custodians of all waqf properties. Due to the lack of financial and managerial expertise of SWIs, the government has taken the initiative to develop the large vast of waqf land to drive economic growth and development through poverty alleviation. More importantly the lack of financial and managerial expertise in waqf institutions may well prevent the revival of waqf. Accordingly, our empirical work examining the financial sustainability of waqf institutions may help the government address particular areas of weakness. This will subsequently aid in the speedy revival of waqf institutions.

Research method
To enable the assessment of accountability of the trustees, clear and transparent reporting is required (Ihsan and Ibrahim, 2011). It is only through good reporting of accounting information that the efficiency and effectiveness performance accountability elements could be evaluated by the user. In effect, evaluating the extent of financial performance accountability largely depends on the disclosure of financial information. Ideally, such information should be disclosed in the annual reports of waqf institutions. However, as will be explained later, the annual reports of the SWIs contain very minimal information that one can use to assess the performance of such institutions. Nonetheless, we proceeded with the little that we got.

Using information from the audited financial reports of SWIs and adopting Tuckman and Chang (1991)’s framework, we determined the financial health of SWIs in Malaysia.
may be recalled, the financial efficiency and effectiveness of an organisation depend upon the financial condition and vulnerabilities of the institution (Keating et al., 2005). Thus, the assumption made here is that the financial sustainability of an organisation reflects on how efficient and effective the organisation is, a point emphasised earlier.

According to Tuckman and Chang (1991), a non-profit organisation is financially distressed or vulnerable when it is likely to cut back its service offerings immediately when it experiences financial crises. On the other hand, it is said to be financially sustainable when it has resources that enable it to immediately seize opportunities and react to threats (Chikoto-Schultz and Neely, 2016). To determine whether a non-profit organisation is financially vulnerable or sustainable, Tuckman and Chang (1991) utilised a ratio analysis of equity balances, revenue administrative costs, concentration and operating margins. Thus, a non-profit organisation is vulnerable when the results of its computed ratios of the four components are low. Conversely, it is considered sustainable when the results are high. The application of ratio analysis has been and still relevant in the absence of meaningful tools for such evaluation (Liket and Maas, 2015).

Nonetheless, Tuckman and Chang (1991)’s model has been criticised for its deficiency in predicting the financial health of non-profit organisations. The model apparently focussed on the present financial situation without any attempt to find out the applicability of the variables in predicting future financial distress of charitable organisations (Keating et al., 2005). This deficiency caused researchers examining non-profit organisations (Greenlee and Trussel, 2000; Hager, 2001; Keating et al., 2005; Trussel and Greenlee, 2004; Trussel, 2002) to suggest for the extension of the model for its predictive ability. In contrast, a most recent study (Tevel et al., 2015) has examined the predictive validity of existing models used by researchers and by professional rating agencies of non-profit organisations to assess the financial vulnerability of such organisations. The models Tevel et al. (2015) tested include Ohlson’s business model and Tuckman and Chang’s model on the non-profit sector. The findings indicate that the Tuckman and Chang model provides the best prediction of financial vulnerability. Accordingly, Tuckman and Chang’s (1991) model is most relevant and appropriate to be used in our study. This is the most widely used model for non-profit organisations and, contrary to earlier scholars’ view, Tuckman and Chang’s (1991) model provides superior predictive ability over other competing models. Finally, the elements of the models have been tested and found to be the most relevant measures of the financial condition of an organisation (Greenlee and Trussel, 2000; Trussel and Greenlee, 2004).

An audited financial report is regarded as an important source of financial data as it is the document used to disseminate information about the financial standing and other issues relating to the organisation (Froelich et al., 2000). Furthermore, audited means that the report has been verified beyond numbers provided by the organisation and the auditor has examined additional documentation before arriving at a conclusion (Froelich et al., 2000). Thus, the annual reports of the waqf institutions used in this study are considered reliable and credible sources of data. Additionally, interviews were conducted with selected individuals to gain a richer understanding about the commercial operations of the institutions and to further seek clarifications about the disclosure items for validation purposes (McNamara, 1999). Initially, the intention was to examine all 14 SWIs. However, as explained in the following section, we only managed to examine seven SWIs. For confidentiality purposes, each SWI will be identified as S1-S14.

The sample
The initial intention was to conduct a trend analysis over three years (2012-2014). However, this was not possible, as we could not gather enough reports for such an analysis to be
undertaken. Accordingly, we focussed on the annual reports of only one year, 2014 which is the most recent available to the authors. The annual reports of 14 SIRCs were obtained. In terms of disclosure of audited financial statements, four SWIs have separate waqf income statements and balance sheets. The other states have either one of the statements separated or combined with other institutions like zakat and baitulmal. For example, four SWIs have a separate waqf income statement with no separate waqf balance sheet. In the case of combined statements, we tried to extract and reconstruct the waqf statements from the accompanying notes to the consolidated accounts, where possible. Considering all these, we ended up with seven SWIs labelled as S1, S2, S3, S4, S5, S6 and S7, for the purpose of this study. This is clearly a limitation of our study.

**Results and discussion**

As indicated earlier, the financial condition of the waqf institutions was investigated using the financial health model developed by Tuckman and Chang (1991). Four ratios were used to determine the financial sustainability and vulnerability of an organisation: equity balances (ratio of equity to revenue), revenue concentration (square of the percentage share that each revenue source represents of the total revenue), administrative costs (ratio of administrative costs as a percentage of total costs) and operating margin (net income (or loss) divided by total revenue). According to the model, an SWI may be financially vulnerable when the results of all of its four ratios are low. The ratios and the corresponding computed results are presented below.

**Equity balances**

This relative measure indicates the potential that a waqf institution has to temporarily replace lost revenue or cover deficit from its equity. Equity, as used in this study, included net assets or the accumulated waqf funds of the SWIs. Equity balance is arrived at by dividing the equity with total revenue. Trussel and Greenlee (2004) argued that the adequacy of equity is a positive measure of financial stability. The drawback here is that Tuckman and Chang (1991) did not suggest any standard benchmark for this ratio. However, they implicitly assumed that non-profit organisations with a larger net worth relative to revenue have a greater ability to replace lost revenue than those with a smaller or negative net worth. Thus, generally, an organisation is financially sustainable when the ratio of equity to revenue is high. Table II provides the results of the equity to revenue ratio.

<table>
<thead>
<tr>
<th>Variables</th>
<th>S1</th>
<th>S2</th>
<th>S3</th>
<th>S4</th>
<th>S5</th>
<th>S6</th>
<th>S7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Funds</td>
<td>26,300,962</td>
<td>125,360,999</td>
<td>7,612,136</td>
<td>25,911,997</td>
<td>27,781,247</td>
<td>15,689,208</td>
<td>10,039,440</td>
</tr>
<tr>
<td>Total revenue</td>
<td>3,437,538</td>
<td>118,596</td>
<td>1,220,039</td>
<td>3,546,596</td>
<td>3,656,391</td>
<td>395,395</td>
<td>139,590</td>
</tr>
<tr>
<td>Ratio</td>
<td>7.65</td>
<td>1,057.04</td>
<td>6.24</td>
<td>7.31</td>
<td>7.60</td>
<td>39.68</td>
<td>71.92</td>
</tr>
</tbody>
</table>

Table I. Equity balances

<table>
<thead>
<tr>
<th>Variables</th>
<th>S1</th>
<th>S2</th>
<th>S3</th>
<th>S4</th>
<th>S5</th>
<th>S6</th>
<th>S7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative costs</td>
<td>1,687,862</td>
<td>21,997</td>
<td>197,867</td>
<td>3,012,808</td>
<td>2,632,082</td>
<td>264,000</td>
<td>129,733</td>
</tr>
<tr>
<td>Total expenses</td>
<td>1,823,826</td>
<td>21,997</td>
<td>265,028</td>
<td>3,130,672</td>
<td>3,273,632</td>
<td>264,000</td>
<td>129,807</td>
</tr>
<tr>
<td>Ratio (%)</td>
<td>92.55</td>
<td>100.00</td>
<td>74.66</td>
<td>96.24</td>
<td>80.40</td>
<td>100.00</td>
<td>99.94</td>
</tr>
</tbody>
</table>

Table II. Administrative costs ratio
As shown in Table II above, the SWIs of S1, S3, S4 and S5 had their equities less than ten times their respective revenues, thus indicating their vulnerability as compared to SWIs of S2, S6 and S7. With its equity being more than 1,057 times its revenue, the SWI of S2 appears to be the most financially sustainable. Its low revenue from a single revenue source could explain the possible reason why it recorded the highest ratio. It relies on rentals from land, houses and stores. The equity based is made up of mainly real properties (land, houses and shop lots) converted either from cash or share endowments. The properties are used for generating income to support charitable activities. Presumably, the appreciation of those properties over time may have contributed to the larger size of its accumulated assets. This is corroborated by the audit findings of the Auditor General’s report on S2 for the year 2014 (National Audit Department Malaysia, 2015). The findings indicate that *waqf* land administered by S2 was valued at RM127.11m in 2014, against S6 which has a total accumulated *Waqf* Fund of RM15.69m. However, the potential of commercial *waqf* land of S2 remains under developed and rental rate for its 184 tenants was not revised since 1999.

On another note, one of the basic pillars of *waqf* requires that the equity must remain intact. As such, its assets are restricted, to some extent. Thus, such assets cannot be used to cover deficits as this would have amounted to a reduction in *waqf* assets. It is only the accumulated surpluses that can be utilised to sustain operations or replace lost revenues as a temporary measure. As per the *waqf* enactment of the SWIs, the income statements of the SWIs indicate that surpluses were transferred to accumulated fund or *waqf* fund. For instance, section 39 of the 2005 of State *Waqf* Act S1 requires the *Waqf* Fund to include all moneys and *waqf* properties or any usufruct or benefit obtained from the properties or by way of *istibdal* (conversion of existing *waqf* to a new viable *waqf*). Thus, one may deduce that surpluses were accumulated annually as buffers to cushion operational financial distress. Accordingly, the equity balance ratios may be regarded as falling within the sustainability region – an indication that these SWIs are financially sustainable.

**Administrative costs ratio**

The administrative cost ratio is the ratio of administrative costs as a percentage of total costs. This ratio determines the ability of a *waqf* institution to control expenditure and the probable impact of such control on service delivery. An SWI with high administrative costs is assumed to have a greater opportunity to reduce its programme administrative (programme) costs without a reduction in the number of programmes undertaken. As found by Greenlee and Trussel (2000), the more stable non-profit organisations (those with high administrative ratios) are less susceptible to financial vulnerability. Accordingly, in line with this argument, SWIs with low administrative cost ratios would be more vulnerable and can be categorised as “at-risk” SWIs. This is because for such SWIs, a further reduction in administrative costs may affect the quality of its services. Administrative costs in this study includes managerial and general costs such as governance, management, record-keeping, office supplies and services, office repairs and maintenance, professional services and honorarium, office related depreciation, doubtful debts and other related administrative activities. Table II presents the results.

SWIs of S2, S6 and S7 had higher whilst the rest of the SWIs had high ratios. This implies that the former group had the higher capacity and diverse opportunities to contain expenditure without affecting its programme and service delivery than the latter. The SWIs had a percentage above 70 per cent, indicating that they still had enough buffer against reduction in service delivery. The SWIs with 100 per cent ratios reported only their administrative costs. This equates the administrative costs to total costs. The significant variation in the ratio might either be due to the nature of their commercial assets and the
extent of administrative requirements, or inadequate recording and reporting of expenses. For instance, the commercial assets of the SWIs with 100 per cent ratios are land and buildings. However, their respective reported expenses amounts were lump sum figures without any further detail or explanation. The costs might have been added to the administrative costs of the SIRCs though it was not possible to discern such information from their annual reports.

Further, given that Tuckman and Chang (1991) did not specify what a high or low administrative cost ratio is, a possible benchmark that could be applied is that given by Charity Facts[1]. According to this, a less than 10 per cent ratio may mean that investment in administrative structure is not sufficient. However, Sorensen and Kyle (2007) suggested that the programme expenses to total expenses ratio should be at least 65 per cent (Better Business Bureau’s Wise Giving Alliance Standard 8). Taking both studies into account, one may conclude that SWIs should at least have a ratio of 50 per cent. As shown in Table II, all the SWIs have ratios higher than 50 per cent, the highest being 100.00 per cent and the lowest being 74.66 per cent. This means that all the SWIs in the study have expended adequate amount of resources on administrative costs.

The administrative ratio needs to be interpreted with care. Although higher administrative costs ratio may allow the SWIs to cut costs without affecting programme delivery, the higher ratios may equally signal that too much resources were committed to administrative expenses and thus fewer funds available for programme services. In such a case, the high administrative cost ratio may not necessarily mean that an SWI is financially sustainable. Perhaps, a scrutiny of each administrative cost is the answer to this. However, given the limited information disclosure by SWIs, this is rarely possible. For SWI of S2, its income statement disclosed “group waqf fund expenses” as the only expenditure item without any details. These expenses could be all related to waqf expenses as section 26 of its Waqf Enactment 2005 provides that any expenses incurred by the waqf management in carrying out its functions shall be paid from Waqf Fund or the SIRC’s treasury. However, given that its main waqf activity is rental, one may assume that this item refers to rental expense.

Additionally, the audited income statement of SWI of S6 disclosed only depreciation expense as its total expenditure. Given that depreciation is a non-cash item, this SWI could be considered vulnerable as it has no avenue cut administrative costs to cushion financial shock. However, in Malaysia, it is possible for some SWIs to have minimal or no administrative expenses because these and other waqf expenses are covered either by the State Treasury or the government. This was confirmed during a phone interview with the research and products division manager of YWM and during a face-to-face interview with the waqf research and investment manager of SWI of S5.

Accordingly, we noted from the income statement of SWI of S5 that, it received and expensed over RM2m assistance as management grant from its SIRC. Finally, the low administrative expenses are also because most SIRCs have dedicated and qualified staff specifically to handle the affairs of waqf only very recently (Rokyah, 2005). With this recent development, for example, the expenditure on human resource compensation for the year 2014 by SWI of S5 was over 75 per cent and 60 per cent of its administrative and total costs, respectively.

Revenue concentration

The revenue concentration index is the square of the percentage share that each revenue source represents of the total revenue. An index close to “0” for each source of revenue indicates that a waqf institution had “equal” revenues from diverse sources and this means
that the institution is significantly healthy. According to Tuckman and Chang (1991), a non-
profit organisation is less vulnerable to revenue downturns if its revenue sources are
diverse, because in an economic downturn, it may be more likely to affect one revenue
source and not all others. However, an index close to “1” for any revenue source indicates an
SWI severely at risk as this is an indication that it is dependent on one single source of
revenue. Table III presents the results.

SWI of S3 appears to have an index close to 0 for each of its revenue sources. Similarly,
SWI of S5 appears to be financially healthy as its sources of revenue are diverse though it
relied on grants more than rental and other revenue sources. Although both SWIs of S3
and S4 had diverse sources, the distribution was not even, they heavily relied on rental
revenue, which accounted for 46.6 per cent (S3) and 84.17 per cent (S4) of the total
revenue. Likewise, SWI of S2 is highly dependent on rental from waqf house and land at
0.57 concentration index. Further, as the index for this particular source of income is
rather high at 0.58, any economic downturn that affects rental properties will put SWI of
S2 in a vulnerable position, financially. The same can be said for SWI of S7. With an
index of 0.76 for the rental of waqf store, it would be in a precarious position, financially,
if for some reason the store is not able to be leased. SWI of S1 recorded a concentration
index of 0.56, putting it in a risky position as it relies more on other incomes, no
disclosure to determine the nature of this revenue source. The least diversified institution
was SWI of S6 which significantly derived its entire revenue from other incomes. Its
index of 1.0 is an indication that it was highly vulnerable and severely at risk in 2014.
The reason is that this SWI only recently intensify efforts to revive its waqf arm. To date,
according to the Auditor General’s 2014 report on S6, its investment totalled RM1.82m in
General Waqf and a Cash Waqf amounting to RM484,976 (National Audit Department
Malaysia, 2015).

Overall, it can be observed that although the SWIs had diversity of revenue sources, their
distribution was not even. As indicated earlier, the index requires that for a waqf institution
to be financially sustainable, it must have a balanced distribution of income from multiple
sources. This would enable the institutions to absorb financial shocks and thus carry out
their waqf activities (Yan et al., 2009). Empirical results indicate that revenue diversification
can significantly enhance financial health (Wicker et al., 2015).

<table>
<thead>
<tr>
<th>Sources</th>
<th>S1</th>
<th>S2</th>
<th>S3</th>
<th>S4</th>
<th>S5</th>
<th>S6</th>
<th>S7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental</td>
<td>0.10</td>
<td>0.22</td>
<td>0.71</td>
<td>0.04</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waqf land</td>
<td>0.32</td>
<td></td>
<td></td>
<td>0.01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waqf house</td>
<td>0.25</td>
<td></td>
<td></td>
<td>0.76</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waqf store</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>0.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares</td>
<td></td>
<td>0.00</td>
<td></td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudarabah</td>
<td></td>
<td></td>
<td>0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed deposits</td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current accounts</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees/Grant S5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture sales</td>
<td>0.00</td>
<td>0.07</td>
<td>0.00</td>
<td>0.02</td>
<td>1.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>0.46</td>
<td></td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit from takaful</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentration</td>
<td>0.56</td>
<td>0.58</td>
<td>0.35</td>
<td>0.72</td>
<td>0.42</td>
<td>1.00</td>
<td>0.77</td>
</tr>
</tbody>
</table>

Table III: Revenue concentration index
Operating margins

This ratio is calculated using net income (or loss) divided by total revenue. The higher it is, the greater the opportunity for the SWI to draw on the surplus should there be a decline in revenues in subsequent periods. Greenlee and Trussel (2000) suggest that non-profit organisations with higher operating margins are less susceptible to financial distress. Accordingly, an SWI will be financially stable if it has a high operating margin. As shown in Table IV, SWI of S2 had the highest at 81.45 per cent, followed by SWI of S3 at 78.28 per cent. The remaining SWIs obtained a percentage below 50 per cent. However, given the positive ratios, the results indicate that these SWIs appear to be financially sustainable.

Of significance to highlight is the profit margin performance of SWI of S5. Its revenue generated from commercial activities accounted for only 40.10 per cent of its total revenue. The remaining 59.90 per cent was a grant received from its SIRC for \textit{waqf} management. By considering only revenue generated from commercial activities, this SWI recorded a negative operating margin of 55.21 per cent. Human resources component of the administrative costs, as explained earlier, amounted to 60.03 per cent of the total expenses and about 20 per cent greater than the total commercial revenue. As the extent of reliance on commercial activities for revenues is directly related to the efficiency in managing overhead and administrative costs (Ecer \textit{et al.}, 2016), it can be concluded that SWI of S5 has been poorly managed. Commercially, it has no surplus to draw upon in times of distress.

Overall, one issue of concern is that on the basis of cash accounting, the SWIs were financially vulnerable in 2014. This is because they heavily relied on rental revenue, which has chronically been suffering from high rental arrears (National Audit Department Malaysia, 2015). With high rental receivable, the SWI will have insufficient cash to meet short-term financial shocks.

Conclusion

The research focussed on determining the financial sustainability and vulnerability of SWIs in Malaysia. More importantly, given that the financial efficiency and effectiveness of an organisation are primarily concerned with how the organisation can sustain its operations in delivering its mission, our study may also be regarded as a study examining efficiency and effectiveness of SWIs. The financial health model developed by Tuckman and Chang (1991) is used to determine the financial vulnerability of SWIs. In this regard, the four components of financial sustainability and vulnerability measures -- equity balances, administrative costs, revenue concentration and operating margin -- were computed and are summarised in Table V.

<table>
<thead>
<tr>
<th>Variables</th>
<th>S1</th>
<th>S2</th>
<th>S3</th>
<th>S4</th>
<th>S5</th>
<th>S6</th>
<th>S7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus</td>
<td>1,613,712</td>
<td>96,599</td>
<td>955,011</td>
<td>415,924</td>
<td>382,759</td>
<td>131,395</td>
<td>9,783</td>
</tr>
<tr>
<td>Total revenue</td>
<td>3,437,538</td>
<td>118,596</td>
<td>1,220,039</td>
<td>3,546,596</td>
<td>3,656,391</td>
<td>395,395</td>
<td>139,590</td>
</tr>
<tr>
<td>Ratio (%)</td>
<td>46.94</td>
<td>81.45</td>
<td>78.28</td>
<td>11.73</td>
<td>10.47</td>
<td>33.23</td>
<td>7.01</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratios</th>
<th>S1</th>
<th>S2</th>
<th>S3</th>
<th>S4</th>
<th>S5</th>
<th>S6</th>
<th>S7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity balance</td>
<td>7.65</td>
<td>1,057.04</td>
<td>6.24</td>
<td>7.31</td>
<td>7.60</td>
<td>39.68</td>
<td>71.92</td>
</tr>
<tr>
<td>Administrative costs (%)</td>
<td>92.55</td>
<td>100.00</td>
<td>74.66</td>
<td>96.24</td>
<td>80.40</td>
<td>100.00</td>
<td>99.94</td>
</tr>
<tr>
<td>Revenue concentration</td>
<td>0.56</td>
<td>0.58</td>
<td>0.35</td>
<td>0.72</td>
<td>0.42</td>
<td>1.00</td>
<td>0.77</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>46.94</td>
<td>81.45</td>
<td>78.28</td>
<td>11.73</td>
<td>10.47</td>
<td>33.23</td>
<td>7.01</td>
</tr>
</tbody>
</table>

Table IV. Operating margin ratio

Table V. Summary of Results
An SWI is financially vulnerable when it has inadequate equity balance, low administrative costs, high revenue concentration and negative operating margin. Overall, the results indicate that two of the institutions (SWIs of S3 and S5) were financially sustainable in all the four components in that they have acceptable level of equity balances and reasonably high administrative costs, desired revenue concentration (close to 0) and positive operating margins (Table V). However, SWI of S5 was deficient without management grant. The other SWIs were all financially sustainable in three components: equity balance, administrative costs and operating margin. They were all financially vulnerable in relation to revenue concentration. Last, the SWI of S6 was financially vulnerable due to its reliance on once source of revenue (its concentration equal to one). Based on the results obtained in the study using the financial vulnerability model of Tuckman and Chang (1991), one may conclude that only the SWI of S3 appeared to be financially efficient and effective. The financial health of the remaining SWIs in the study appears to be satisfactory. The reasons for the variation in their financial health ratios might be attributable to the differences in size, the composition of waqf fund, the proportion of commercial assets, revenue concentration, asset fund/management expertise and the age of the institutions.

However, the results of the study should be interpreted in light of several limitations. The first is that the data used is not the latest and focussed only on a single year. Therefore, the findings may not be necessarily true, currently. Second, our study focussed only on Malaysia. Thus, the results may not be generalisable to other waqfs in other countries or to privately managed waqf institutions. Accordingly, future research should address this. However, the results of the study raised pertinent issues that policymakers should address to ensure the systematic revival of waqf institutions in Malaysia. Consistent with previous studies, our findings revealed that there was inadequate disclosure and poor accounting practices of waqf transactions, equity, liabilities and assets. Most SWIs did not have up-to-date audited financial statements. It was baffling that there were improper classification and treatment of classes of accounts even though the accounts were audited, unqualified and certified by chartered accountants. Additionally, these accounts were even certified by the Office of the Auditor General.

On the basis of the findings of this study, four recommendations are suggested. The first pertains to revenue diversification. It is important for waqf institutions not to rely on just one particular source of income. The revenue sources of the SWIs, with the exception of S6, revealed that total rental revenue stream accounted for almost 50 per cent of their combined total revenues. Implementing a revenue concentration strategy yields a growth in their total revenue over time (Chikoto and Neely, 2014). This could be done by looking for other viable investment opportunities. Handling divestments would require capacity building or using qualified investment specialists to competently manage investment risks. Further close attention on revamping idle waqf resources could enhance the sustainability of waqfs. In Malaysia, the ninth Malaysia Plan (pages 64 and 65) specifically provides for this. It states “a strategic plan will be drawn up to ensure that the income generated from the development of waqf land will enable state religious authorities to be more self-reliant in developing new waqf land”.

Self-reliance meant that each SWI should ensure that it relies on multiple sources of revenue equally to sustain developmental and operational activities. Second, there is a need for improved accounting practices among the waqf institutions to ensure adequate disclosure of waqf assets, liabilities, equity, revenue and expenditure. According to Ihsan and Ibrahim (2011), accounting is a basic requirement for true accountability to be discharged through standardised, clear and transparent reporting. In line with this, there is thus, an urgent need for the standardisation of waqf accounting to minimise diversity across the SWIs. In Malaysia, the guideline formulated by JAWHAR (2009) (Appendix) is indeed
commendable. However, a close examination of the accounts found no SWI actually adopting the framework. Given that JAWHAR has no real power over the SWIs, this comes as no surprise.

Despite the various limitations, it is hoped that the results of this study may help other Muslim countries in managing its waqf. More importantly, the findings of the study have provided an insight as to how well institutional mutawallis are carrying out their tasks – an indispensable ingredient for revitalisation of waqf. Finally, we would like to emphasise that performance accountability is very significant as a donor to a waqf needs to be kept informed as to the purpose for which the funds have been used for and whether the funds have been distributed to the right beneficiaries (Sulaiman et al., 2009). However, donors of waqf assets, having placed their trust on the SIRCs, do not generally establish mechanisms to ensure the successful management of their assets.

Similarly, users of waqf assets and/or recipients of the resultant economic benefit arising from the use of waqf assets either have little or no say as to how well the institutions are managing the assets to reap maximum benefit. In default, donors (dead or alive) and the recipients (otherwise the public) become absentees and detached from the trusted waqf institutions. This situation leads to lapses in accountability. In this regard, assessing the performance of waqf institutions will indicate the extent such institutions have discharged their accountability.

Most importantly, given that accounting provides a pertinent platform for the assessment of the performance of waqf institutions, it is imperative that specific standards for waqf be developed (Masruki and Shafii, 2013). The development of waqf accounting standards will indeed provide a systematic revival of the institution of waqf. It is with this in mind that a focus group discussion on Accounting for Waqf, Zakat and Baitulmal was arranged by the Accountant General of Malaysia in July 2015. In early, 2016, three public universities were tasked to look into the financial reporting and accountability of these institutions. It is hoped that the results and the recommendations of the study would enable the financial reporting and accountability of such institutions to be at a higher level.

Note
1. www.charityfacts.org/resources/student_and_researcher_information/index.html

References


Appendix. Pro-Foma financial statements – JAWHAR (2009)

### ISLAMIC RELIGIOUS COUNCIL
GROUP WAQF FUND
BALANCE SHEET AS AT 31 DECEMBER

<table>
<thead>
<tr>
<th>Note</th>
<th>RM 20XX</th>
<th>RM 20YY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NON CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Work in progress</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Investment</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued rent in income</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>NET CURRENT ASSETS/(LIABILITIES)</strong></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>FINANCED BY:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Waqf Account</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Special Waqf Account</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>TOTAL GROUP WAQF FUND</strong></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Long term loan</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

### ISLAMIC RELIGIOUS COUNCIL
GROUP WAQF FUND
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

<table>
<thead>
<tr>
<th>Note</th>
<th>RM (Million) 20XX</th>
<th>RM (Million) 20YY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Distribution</td>
<td>(xxx)</td>
<td>(xxx)</td>
</tr>
<tr>
<td>Surplus/(Deficit) during the year</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

### ISLAMIC RELIGIOUS COUNCIL
STATEMENT OF CHANGES IN GROUP WAQF FUND FOR THE YEAR ENDED 31 DECEMBER

<table>
<thead>
<tr>
<th>Note</th>
<th>RM (Million) 20XX</th>
<th>RM (Million) 20YY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 January</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Add: Surplus/(Deficit) during the year</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Balance as at 31 December</td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

(continued)
### ISLAMIC RELIGIOUS COUNCIL

**GROUP WAQF FUND**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER**

<table>
<thead>
<tr>
<th>Cash Inflow/(outflow) From Operating Activities</th>
<th>RM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>xx</td>
</tr>
<tr>
<td><strong>General Waqf</strong></td>
<td>xx</td>
</tr>
<tr>
<td><strong>Special Waqf</strong></td>
<td>xx</td>
</tr>
</tbody>
</table>

**Adjustment for noncash items**

| xx | xx |

**Cash Inflow from Investing Activities**

| xx | xx |

**Cash and cash equivalent at the end of the year**

| xxx |

**Cash and cash equivalent at the end of the year comprise of:**

| Cash in hand/Cash at bank | xxx |
| Fixed deposits            | xxx |

### ISLAMIC RELIGIOUS COUNCIL

**GENERAL SPECIAL WAQF ACCOUNT**

**BALANCE SHEET AS AT 31 DECEMBER**

<table>
<thead>
<tr>
<th>Note</th>
<th>RM 20XX</th>
<th>RM 20YY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NON CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Work in progress</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Investment</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

**CURRENT ASSETS**

| Accrued rental income | XX | XX |
| Cash in hand | XX | XX |
| Cash at bank | XX | XX |

**Total Current Assets**

| XXX | XXX |

**CURRENT LIABILITIES**

| Accrued expenses | XX | XX |
| Advance income | XX | XX |

**Total Current Liabilities**

| XXX | XXX |

**NET CURRENT ASSETS/(LIABILITIES)**

| XXX | XXX |

**FINANCED BY:**

| General Waqf Account | XXX | XXX |
| Special Waqf Account | XXX | XXX |
| **TOTAL GROUP WAQF FUND** | XXX | XXX |

| Long term loan | XXX | XXX |

*(continued)*
STATE ISLAMIC RELIGIOUS COUNCIL
GENERAL/SPECIAL WAQF INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

<table>
<thead>
<tr>
<th>Income</th>
<th>RM 20XX</th>
<th>Percentage (%)</th>
<th>RM 20YY</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>XXX</td>
<td>%</td>
<td>XXX</td>
<td>%</td>
</tr>
<tr>
<td>Total Percentage</td>
<td></td>
<td>%</td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

Less Expenses:

Administrative and general expenses:
- General expenses: XXX %
- Rental: XXX %
- Repairs: XXX %
- Insurance: XXX %
- Printing and stationery: XXX %
- Postage: XXX %
- Depreciation: XXX %
- Management allowance/Tax: XXX %
- Utilities: XXX %
- Repairs and maintenance of assets: XXX %

Other expenses: XXX (XXX) % (XXX) %

Total Percentage: %

Less Distribution:
- Text books: XX %
- Teaching materials: Xx %
- Scholarship: Xx %
- Assistance to the poor: Xx %
- Donation to mosques: Xx %
- Assistance to orphans: Xx %

Other: XXX (XXX) % (XXX) %

Total Percentage: %

Accumulated Funds: Current year surplus/(deficit) XXX XXX

Last year surplus/(deficit) XXX XXX

Accumulated surplus/(deficit) XXX(XXX) XXX(XXX)

Total Percentage: %

Corresponding author
Maliah Sulaiman can be contacted at: maliah@iium.edu.my

For instructions on how to order reprints of this article, please visit our website: www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: permissions@emeraldinsight.com