ACCOUNTING FOR WAQF INSTITUTIONS: A REVIEW ON THE ADAPTATION OF FUND ACCOUNTING IN DEVELOPING THE SHARIAH-COMPLIANT FINANCIAL REPORTS FOR MOSQUE

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INTRODUCTION

Unlike other religious places of worship, the mosque is not simply a place where Muslims go to perform their prayers. During the early stage of Islamic rules, the mosque functions as the state administration center where all government activities took place. Apart from that, Islamic programs, community activities and services are also carried out in mosques to instill and strengthen Islamic knowledge and values among community members. However, at present, the role of the mosque is limited to activities of shaping society through religious activities. This has now become the main focus of this institution where all efforts by the mosque managers are directed towards achieving this goal. To enable its operation, the mosque needs funds. Similar to other nonprofit organizations (NPO), mosque receives funds from the public such as donations (sadaqah), endowments (waqaf) and also government grants. Managing mosque in this environment requires efficient and proper financial management practices to ease the delivery of related services to the community (Al-Dawarni, 2007). In this context, proper use of accounting system can enhance the accountability of the mosque managers. The lack of compliance of mosque managers to the reporting requirements, lack of accountability, unskilled manpower and weak internal control are among the challenges highlighted in many discussions. This paper however, focuses on the current financial reporting practices by mosques that may be exposed to Shariah risks. It will highlight several Shariah non-compliant issues and risks in the existing practices, while at the same time offering solutions and mitigations for the issues and risks raised from the accounting perspective. The findings of this research will provide some useful and pertinent information for the mosque managers to improve the financial reports of their respective mosques. This effort coupled with better understanding of Shariah risks in financial reporting should be of great help for the management and policy makers to encourage the use of Shariah-compliant financial reports for mosques.

LITERATURE REVIEW

Mosque (masjid) is amongst the biggest forms of waqf properties especially in Malaysia. Waqf have been developed since the era of Rasulullah (pbuh) and have a great role in the socioeconomic of Muslims. However, in the past decade, study of waqf institutions has been marginalized and also give an impact on research of the waqf accounting

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systems. The use of waqf accounting is not a new idea. A study by Yayla (2007) found that the book keeping process had already been practiced since Sultan Suleyman of the Ottoman Empire. A systematic accounting process, which includes annual income, expenditures and the increment of waqf assets, during the Ottoman Empire is mainly to avoid the malpractices and misuse of Waqf asset for the period of 1490 to 1928 (Toruman and Tuncsiper, 2007).

Other literature, relates the importance of accountability of human as vicegerent (Khilafah), especially mutawalli who are responsible for managing the Waqf (Ihsan, 2007; Cordery and Morley, 2005). Muslim believes that everything in this universe is created by one God-Allah. Therefore, human owes their life, their action and everything to Allah. By having waqf accounting and auditing system in place, mutawalli performance can be monitored and their work will be more transparent (Adnan et al., 2007).

To resolve all arising issues on management of accounting of this institution, many researchers proposed a systematic auditing or accounting standards for waqf to be established (Abdul Rahim et al., 1999; Siti Rokyah, 2005 & Hisham, 2006). To ensure a holistic accounting system, this study proposes waqf accounting system that take into account the shariah risk into the framework. The proposed accounting system could also be applied for mosque institution as both share similar mission. In this system, fund collection must be separated by intention (‘niaf’) of the waqf contributors, either general usage or specific usage. Despite of fund separation, local institutions such as mosques should also be involved in the management of waqf fund to ensure the sustainable reward to the contributors. The study by Rokiah et.al. (2008) on three mosques in Dungun, Terengganu, has found that there was no systematic accounting system practiced by the mosque managers in managing the funds. This was due to the fact that the appointed treasurers had limited knowledge in financial reporting.

The administration of waqf and mosques in Malaysia is under the jurisdiction of the State Islamic Council (SIRC) headed by the Sultan or Tuan Yang Terutama of each state. The SIRC is also implementing decentralization of waqf administrative matters to the mosque management. This administrative approach equivalent to practices during the Turkish Islamic Khilafah. Historically, the waqf during Ottoman Empire had not been centralized until the first half of the 19 century. However, the Ottoman emperor had appointed mutawalli for local waqf administration (Yayla 2007).

Based on the study by Zakaria Bahari dan Mohd Kamal Omar (2004) on the fund management of mosque, they found that mosques categorize funds into traditional fund and general fund. Traditional funds include public contributions on every Friday and Muslim festival congregations. General fund is collected from fund raising activities organized by mosques. Other strategies to raise mosque fund as proposed by Joni Tomkin (2002) include continuous monthly collection from the community, mosque cooperations, investments and rental services.

Much of the previous discussions highlighted issues on the lack of systematic financial reporting system practiced by mosques. Others discussed the fact that due to the absent of proper standard of financial reporting for mosque, many different format of reporting systems have been practiced by mosques. As far as the authors are concerned, there is

no discussion in previous studies that raised issues that relate to shariah-compliancy of financial reporting for mosques. Thus, this paper will try to close this gap and provides solution for the issues.

MOSQUES IN MALAYSIA AND ITS FUNCTIONS

Since the advent of Islam in Malaysia, thought to be around 15th century, mosque has been influential as the center of religious activities for Muslim community. In Islam, mosque is the place for Muslim to gather and practice Islamic teachings that covers five time daily congregation prayers, learning of Islamic knowledge and other community programs. This institution has been the focal point for protecting and spreading Islam in the country former known as Tanah Melayu or Malaya. Considering the esteem status of mosque as the symbol of Islam, these sacred buildings have been built throughout Malaysia especially in the highly populated Muslim areas (Asharaf et. al, 2012).

During the colonization era of Malaya for more than four hundred years, mosque institution served as a fortress for preserving and safeguarding the faith of Muslim. Most of the mosques were built on the waqf lands dedicated by pious Muslims who wish to protect their fellow believers against the danger of missionaries brought by the colonists (Siti Mashitoh, 2006). Besides for the development of mosques there were a sizeable amount of lands devoted as waqf for religious schools and cemeteries. The three oldest mosques in Malaysia, namely; Masjid Kg. Hulu in Melaka, Masjid Sultan Abu Bakar in Johor and Masjid Kg. Laut in Kelantan, are considered among the earliest waqf assets created in the country (Hajah Mustafa et.al, 2009).

The Administration and Management of Mosque in Post-Independence Period

After independence, the administration and management of mosque in Malaysia is under the purview of the States with the exception of Federal Territory as enshrined in the Federal Constitution. Schedule 9, State List 2 of the Constitution outlines the authority of Sultan/YDP Negeri to administer and manage Islamic and Malay affairs in their respective states excluding Federal Territory, which is headed by YDP Agong. The State established State Islamic Religious Council (SIRC), which has the legal power to administer Malay customs and Islamic affairs including mosque institution. For example, Section 72 Enactment of Negeri Sembilan, no. 1/1991 stated the role of State Islamic Religious Council of Negeri Sembilan (MAINS) as a sole trustee of mosque in the state territory. This statement is also clearly affirmed in the enactments of other states, for instance Perlis, Pahang, and Federal Territory, which outlined the jurisdiction of SRIC over mosque and its lands (Asharaf et.al, 2012). Sultan/YDP Negeri and YDP Agong empower the SIRCs to monitor and supervise mosque activities. Besides monitoring mosque programs, the SIRCs in each state are responsible to appoint mosques officers and monitor the selection of mosque committee. In Selangor for example, the mosque committee is appointed during the annual general meeting and headed by Nazir with twenty members holding various portfolios. The term of the appointment is lasted for three years period (Jabatan Agama Islam Selangor, 1989).

It is worth to note that nowadays the administration and management of mosque in Malaysia are facing a number of challenges especially in the area of financial
management. The extended roles and functions of mosques that include the demanding tasks of managing funds and becoming an economic agent for Muslim community require the appointment of eligible candidates to hold important positions in the mosque committee such as nazir and treasurer. For example, some of mosques located in the big cities manage a huge amount of funds amounting to hundreds and thousands ringgit, which necessitating a sound and prudent fund management. In addition, the establishment of cooperation by mosque committee provides an avenue for income generation for the mosque; however, special attention must be given to the financial reporting and its accountability.

**CURRENT ACCOUNTING PRACTICE IN FINANCIAL REPORTING OF MOSQUE**

The demand for financial accountability by nonprofit organizations has dramatically increased. This includes mosque that need funds to operationalize its various functions and objectives. Generally the funds may come from various sources that include publics, governments, as well as corporate businesses. In Malaysia, since state mosques are managed by SIRCs, the state governments finance all the staff and operational costs of the mosques. Other financial sources include public contributions in the forms of donations, sadaqah and waqf charity. Each mosque has its own committee to manage the administration of the mosque and its activities. With regards to managing funds, accounting and financial reporting play an important role as a strategic accountability device. The relationship between the providers of funds and the mosque managers is the subject that accountability is focusing on. From the Islamic point of view, the concept of accountability derives from the concept of amanah (trust). In Islam, man is considered as a vicegerent (khilafah) of God and all that he has in his possession; body, wealth, knowledge and power are amanah or trusts from Allah. Man is responsible to manage these amanah in line with shariah principles. As with all organizations, managers of mosques must properly account for the financial condition, results of operations and the cash flows of the mosque to the governing bodies, the communities and other interested stakeholders to provide assurance that the contributed funds are handled appropriately (Nordiawan & Hertianti, 2010).

**PROFIT-ORIENTED VS NONPROFIT ORGANIZATION**

The type of accounting system that is to be used in managing the financial activities is highly dependent on the main objective of an organization. If the organization is established with a profit motive, it has to comply with the financial reporting standards for businesses in disseminating information to its stakeholders. Instead, nonprofit organization (NPO) should adopt fund accounting model that focuses more on how effective and efficient the NPO managers are in using the public donations to achieve the mission of the organization. Religious organizations and charities are normally founded for a mission that has no profit motives and mosque is one of them. Fund accounting model provides better approach of reporting the sources of funding, segregating the funds for specified purposes and controlling the use of funds accordingly. This financial reporting approach helps the funds providers better in measuring the performance of the NPO managers in utilizing the funds to achieve the
mission of the organization. Proper and transparent financial reports issued by the NPO will attract more donors to contribute to the organization.

**CURRENT ACCOUNTING PRACTICE OF MOSQUES IN MALAYSIA**

Since the operational costs of majority of mosques in Malaysia are partly funded by the state governments through the SIRCs, the mosques managers are held responsible to provide financial reports to account for the funding and the disbursements of the funds. Some SIRCs provide proper guidelines of financial reporting to the mosques to facilitate the managers in preparing the reports. However, the requirement to periodically submit such reports is not strictly enforced due to the fact that most of the committee members of mosques are generally volunteers and have less skill in reports preparation (Rokiah et.al., 2008). Due to this situation some reports are not properly prepared and even not submitted to the councils on a frequent basis.

With respect to the guidelines provided by the SIRCs, the standards of reporting being proposed is basically similar to that of business organization’s. The problem of this practice lies on the objective of the financial reporting that differs between both types of organizations. Unlike business organization that aims for making profit, the financial reporting objective for nonprofit organization like mosque focuses more on providing information about the sources of funding and how the funds are being used to achieve its mission. The performance of the mosque managers are measured based on how effective and efficient they are in managing the funds towards achieving the mission and goals of the mosques. Currently, since the financial reporting standards of business organization are being adopted by mosque, the providers of the funds cannot properly assess such measure.

Adopting financial reporting standards for business organization in preparing the financial reports of mosque exposes the management of the funds to shariah-related risks. These risks are often unknown to the managers of funds especially those who have no strong backgrounds in fund accounting with respect to the issues pertaining to the segregation of restricted and unrestricted funds. Apart from that, lack of knowledge among the managers about the existing fatwas that relate to the disbursement of mosque funds may leads to management financial decisions that are not shariah-compliant.

**SHARIAH ISSUES AND RISKS**

Shariah issues surrounding the financial management of mosque could be analyzed from several aspects. One of them is on the guidelines and fatwa for the collection and utilization of the mosque’s funds. Another aspect could look at the issues from the managerial aspect. However, those aspects are not within the scope of this paper. This paper shall focus on the main Shariah issues that have been observed from the current accounting practice in financial reporting for mosque, especially the statement of income. Based on the authors’ analysis, the Shariah issues and Shariah non-compliance risk with regard to this aspect could be summarized in the following table.

<p>| Table 1: Shariah Issue and Related Shariah Non-compliance Risk |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Aspect of the Shariah Issue</th>
<th>Shariah Non-compliance Risk</th>
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<tbody>
<tr>
<td>1</td>
<td>The segregation between restricted and unrestricted funds</td>
<td>The potential misuse of restricted fund for unrestricted purpose</td>
</tr>
<tr>
<td>2</td>
<td>The segregation between all the restricted funds</td>
<td>The potential misuse of restricted fund “A” for another restricted purpose</td>
</tr>
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**Risk 1 : The Potential Misuse of Restricted Fund for Unrestricted Purpose**

Since there are two main types of fund for mosque i.e. unrestricted fund (‘amm) and restricted (khass) fund, there are possibilities or risks that the sources and utilizations of the two funds may mix each other if there is no proper segregation between the funds. The segregation of the two funds could be performed physically or based on the financial statement (accounting practice). Although the funds may be segregated physically, the complete and absolute segregation could not be achieved except with the segregation of accounts where the in-flow and out-flow of cash for the funds are reported accordingly. The common practice of accounting record adopted by most of the mosques seems to be inadequate in demonstrating the complete segregation of the two funds in term of sources and utilizations. Therefore, it is vital to adapt an accounting practice that could exemplify the complete segregation of the two funds where all the in-flows and out-flows could be determined specifically from their respective funds. The discussed risk could be illustrated in the figure below.

![Diagram showing segregation of funds](image)

**Figure 1: Shariah Non-Compliance Risk of the Potential Misuse of Restricted Fund for Unrestricted Purpose**

**Risk 2 : The Potential Misuse of Restricted Fund “A” for the Restricted Purpose of Fund “B”**
Practically, a mosque may have more than one restricted fund based on different purposes. For example, one specific fund for the construction of new roof and one specific fund for helping the orphans, or et cetera. The existence of different restricted funds may expose the funds to the Shariah non-compliance risk which may arise from the utilization of one restricted fund (e.g. Restricted Fund A) for another restricted fund’s purpose (e.g. Restricted Fund B). The restricted fund for the construction of new roof may be mistakenly used to help the orphans. Although the purpose is commendable and charitable, the use of wrong sources would render the charity as violation (khiyanah) and unlawful (haram). This risk could arise from the poor segregation of funds between all the restricted funds. The current accounting practice and record fail to demonstrate such segregation although the segregation is performed manually and physically. Thus, there is a need for an accounting practice that could mitigate this Shariah non-compliance risk by determining the sources and utilization of each restricted fund to its restricted purposes accordingly. The discussed risk could be illustrated in the figure below.

The underutilization of a restricted fund in the current year may expose it for being utilized for another purpose, which may violate its restricted nature. The balance of a restricted fund should be carried forward, for its restricted nature, to the next future event. However, without proper segregation of funds, the balance of a restricted fund may be carried forward to the next year financial statement as unrestricted cash. The use of restricted fund for unrestricted purpose has been declared as non-Shariah compliance in many fatwas (Shariah opinions of Islamic jurists) (Asharaf et al, 2009).

ADAPTING FUND ACCOUNTING MODEL IN FINANCIAL REPORTS OF MOSQUE

Fund Accounting
Fund accounting covers most aspects of business accounting; however, it has significant differences in the accounting procedures, management objectives, reporting requirements, and accounting standards. These qualities are important to fit the nature of nonprofit organizations including mosques. The financial reporting requirements for these organizations are very unique as the reports are designed to measure performance against budgets and income against expenses. Business system reports are designed to measure income against expenses only. The main source of income of the nonprofit organizations is funds contributed by government, publics or corporate businesses. Fund accounting system divides these donated funds mainly into three categories; permanently restricted, temporarily restricted and unrestricted funds (Hoyle, et. al 2009). Permanently restricted funds are donations contributed for designated purposes as instructed or intended by the donors. The principal balance of the donations remains as an investment forever and the nonprofit organizations can utilize the profit earned from such investment for their strategic mission. Temporarily restricted funds have donor-imposed restrictions that will cease upon the completion of a defined activity or a defined period of time. Unrestricted funds are funds that have no external restrictions with respect to purposes or time, and available for general use.

**Model Imarah Masjid (MIMAS) – A New Accounting Model for Masjid**

Adapting from the fund accounting framework, the authors have developed a new accounting framework for mosque namely *Model Imarah Masjid* (MIMAS). The financial reporting system proposed by this model encompasses the Statement of Financial Activities, Statement of Financial Position and Statement of Cash Flows. This paper will only cover the Statement of Financial Activities that is suitable for reporting the financial activities of mosque. Based on this model, the sources of funds of mosque should be classified into unrestricted funds and restricted funds as shown in Figure 3: below.

![MIMAS Accounting Framework](image-url)
Restricted fund is a reserve of money entrusted by donors to nonprofit organization that can only be used for specific purposes. Whereas, unrestricted fund is the donations that the organization is free to use as they see fit to achieve their mission. With respect to disbursement, the model divides the use of funds into three categories; *ijtima’i* (social activities purpose), *idari* (administration purpose) and *tijari* (investment and business purposes). Ijtima’i or social activities is actually the main category where more funds of mosque should be allocated, as the role of mosque in Islam is to shape society by instilling and strengthening the Islamic values amongst the community members through such activities. In his research, Asharaf et. al (2009) found that some mosques had spent money more on *idari* or administration expenses rather than on the *ijtima’i* activities. This situation will eventually affect the effectiveness of the funds utilization in achieving the strategic mission of mosques.

**CONCLUSION**

This paper has been aimed to review the appropriateness of the current practice of accounting in preparing the financial reports for mosques that are Shariah-compliant. It argues that the adoption of commercial accounting in financial reports of mosques is not appropriate; as such reports could not properly serve the financial reporting objective of nonprofit organization. Unlike business organizations, mosque is a nonprofit organization that has no profit motive for its existence and thus requires fund accounting model to account for the funds received from the public. However, adopting fund accounting as a whole without any modification might exposes the mosque financial management to shariah-related risk. Therefore, this paper proposes Model Imarah Masjid (MIMAS); which is an adaptation of fund accounting; that is able to mitigate the risk through a proper segregation of sources and utilization of funds based on shariah principles.

**REFERENCES**


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