

Enhancing Waqf Accountability: Nazhir's Perspective towards Waqf Reporting

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Abstract. *This study explores the best reporting form as a representation of waqf accountability through nazhir's perspectives, i.e. waqf institutions in Indonesia. The method used in this study is the Analytic Network Process combined with Delphi. The results show that financial statements obtained from the first rank as the best reporting form. However, the waqf institutions could have difficulties in delivering a high-quality financial statement since there is a lack of understanding about the new waqf accounting standard that will be applied in 2021. The development of a comprehensive and down to earth guidance is crucial in helping the institutions apply the standard, with a help line as a backup. Continuous education and certification are also useful to enhance the skills of human resources in the waqf institutions concerning waqf management and accountability reporting.*

Keywords: *Waqf Accountability; Waqf Reporting; Nazhir; ANP; Delphi method*

Abstrak. *Penelitian ini bertujuan untuk mengeksplorasi bentuk pelaporan terbaik sebagai representasi akuntabilitas wakaf, dilihat dari perspektif nazhir, yang dalam hal ini adalah institusi wakaf di Indonesia. Metode yang digunakan adalah Analytic Network Process yang dikombinasikan dengan Delphi. Hasil penelitian ini menyimpulkan bahwa laporan keuangan yang diperoleh dari tingkat pertama adalah bentuk pelaporan terbaik. Akan tetapi, pemahaman institusi wakaf terhadap standar akuntansi wakaf terbaru yang akan diberlakukan pada tahun 2021 masih sangat kurang. Ini menyebabkan institusi wakaf mengalami kesulitan dalam menyusun laporan keuangan yang berkualitas baik. Pengembangan pedoman pelaporan yang komprehensif dan mudah dipahami diperlukan untuk membantu institusi wakaf. Hal ini perlu disertai layanan bantuan yang dapat diakses setiap saat. Pendidikan berkelanjutan dan sertifikasi juga dibutuhkan untuk meningkatkan keahlian sumber daya manusia di institusi wakaf terkait manajemen wakaf dan pelaporan akuntabilitas.*

Kata kunci: *Akuntabilitas Wakaf; Pelaporan Wakaf; Nazhir; ANP; Metode Delphi*

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Introduction

The glory of *waqf* since the early period of Islam until the Ottoman empire has inspired the Islamic world to revive the significant role of *waqf* (Abdullah *et al.*, 2017; Stibbard *et al.*, 2012). Some researchers suggested that *waqf* development should be in the form of Islamic social enterprise, while others proposed *waqf* as a financing model for small business. Nonetheless, the utilization of cash *waqf* that had been proved to succeed in the Ottoman period has also become an important recommendation (Mohsin, 2009). All the effort conducted as enforcement to strengthen the role of *waqf* in Islamic society.

It should be noted that the glory of *waqf* could not be achieved without any participation from the community. The study concerning the Islamic society in Malaysia has concluded trust as one of the determinant factors that can influence the community to participate in *waqf* (Shukor *et al.*, 2017). Trust towards *waqf* institutions stimulated by transparency and accountability, which would extend the size of donors and increase the amount donated (Connolly *et al.*, 2011).

Waqf institutions, acted as *nazhir*, are given responsibility by donors, ie. *waqif*, to manage *waqf* asset. To account for this responsibility, *waqf* institutions must provide information about the *waqf* management under their controls. This information might include financial and non-financial matters, required by stakeholders. In the light of trust and integrity environment surrounding *waqf* institution, accountability is an obligation rather than an option (Yacoob *et al.*, 2015).

Accountability can be delivered through the form of a report that prepared periodically. An example of a report that has been used as an important tool to fulfill this obligation by *waqf* institution is a financial report (Nahar *et al.*, 2011). An institution is considered to be accountable when it periodically presents financial statements in conformity with the accounting standards (Ihsan *et al.*, 2011; Yacoob *et al.*, 2015).

While the financial statement is believed as an important document, donors have tendencies to choose an institution that can demonstrate its efficiency and effectiveness (Sargeant *et al.*, 2004). Effectiveness can be translated as an achievement to the desired result, while efficiency is the optimal utilization of all resources in the *waqf* institution. A report contains specific information about a programme performance along with supporting non-financial information is needed by the donors to ensure whether a programme has been conducted in

the right path towards its primary objective (Connoly *et al.*, 2013). This kind of information can be delivered through a specific project or programme report.

At the international level, non-profit organizations united in International Non-Government Organizations have an agreement on Accountability Charter. All the members are required to submit an accountability report as a commitment to this global platform. This report will be reviewed, then, feedback will be sent to highlight the improvement needed to perform by each member. This type of report can be an alternative form of a report to enhance the accountability practice in *waqf* institution.

From the three forms of reports discussed before, there was a divergent opinion about the form of accountability need to be delivered. It will be necessary to discover which one is the best representation of accountability in the *waqf* institution. With extremely limited resources, *waqf* institutions have enormous tasks starting from collecting *waqf* assets, marketing their programmes, managing the *waqf*, distributing the usufruct to beneficiaries, until reporting the whole processes to stakeholders. They must allocate their resources into all these tasks considerably. Focused on delivering one kind of report that can be a representation of accountability in managing *waqf* asset will be an advantage in efficiency and effectivity of *waqf* management. Expecting them to deliver many kinds of reports might cause a lack of resources for other tasks. Because it is the responsibility of *waqf* institution to deliver accountability to stakeholders, the main purpose of this study is to explore *nazhir's* point of view regarding the best representation report form of accountability.

The report as an accountability representation must contain at least two types of information, i.e. financial and non-financial information. Referred to the new standard in *waqf* accounting, PSAK 112, that will be effectively implemented on 1 January 2021, *nazhir* is an independent reporting entity separated from the superior organization above it. Consequently, *nazhir* must provide its own financial statements consist of the statement of financial position, statement of *waqf* asset, statement of activities, and statement of cash flow. All the information embodied in these financial statements can be grouped into four common categories, i.e. assets, liabilities, *waqf* revenue, and *waqf* distribution.

As discussed earlier, donors, i.e. *waqif* in the *waqf* context, demand for a report that can be used to measure the effectiveness and efficiency of *waqf* management by *nazhir*. The relevancy of information provided in financial statements and the annual report is still questioned. This information is considered hard to understand and less important than performance information concerning

the programme conducted by the institution (Connoly, 2013). Despite the performance information, other information that is important to be presented are beneficiaries. Since the *waqf* intention is to deliver a continuous benefit to the community, then it is essential to weight this beneficiary's information as non-financial information needed in enhancing *waqf* accountability report.

Another aspect of *waqf* reporting is information quality. A high-quality report will obtain a high level of trust, as well. This high-quality information then can be used in the decision making process by stakeholders. Based on the fundamental framework for sharia accounting, the qualitative characteristics that must be incorporated into a report are relevance, reliability, understandability, and timeliness (KDPPLKS, 2016; AAOIFI, 2015). The information is considered relevant if it assists the users in the decision making process, that it can be used to predict the future and confirm this prediction. It also needs to be reliable, i.e., faithful, unbiased, and complete. Besides these two characteristics, the information should enable users to comprehend its meaning. It should be presented clearly and concisely. As the final characteristic, the information must be provided in time to enhance its usefulness.

To achieve the accountability level by delivering high-quality information, *waqf* institutions might confront some internal obstacles. They need to allocate sufficient resources in every task. The task of preparing and verifying the report, for example, might need a definite person to be appointed. Each task also requires a specific skill or knowledge. The person assigned for preparing the report must possess certain skills to produce a high-quality report (Ihsan, 2011; Budiman, 2011). Besides human resources sufficiency and their skills, an integrated system might be necessary to ensure the input sources of information is being processed as expected to produce high-quality information. Managing *waqf* efficiently while maintaining a high level of accountability should be reinforced by an integrated information system and qualified personnel (Ihsan, 2011). All these allocations of resources might result in an additional cost for the institution. The more diversify and details the information, the greater the cost. The consideration commonly used is the benefit derived must exceed the cost emerged from providing the information (KDPPLKS, 2016).

Based on the discussion above, this study will use three clusters of criteria to assist in concluding the main objective, i.e. determine which report can act as the best representation of accountability delivered by *waqf* institution. Those criteria are the component of information, the qualitative characteristic of a report, and the obstacle or weaknesses in the internal *waqf* institution.

A proposed model then built to be validated by experts. The model can be altered according to the recommendation given by the experts.

Literature Review

To understand about *waqf* accountability, first, it is essential to review the *waqf* system. *Waqf* system is built upon four fundamental elements, i.e. *waqif*, *mauquf*, *mauquf alaih* and *al sighthab* (Usman, 2013; Yacoob *et al.*, 2015). *Waqif* is the person that surrender his/her assets. There are some requirements to become a *waqif*. He/she must be mature, sane, healthy, and a legal owner of the assets (Muzarie, 2010). If the *waqif* is an institution, then based on *Waqf* Act Number 41 2004, it also has to fulfill the regulation inside the institution as mentioned in its article of association.

The second element is *mauquf* or the assets being surrendered. The asset has to be approved legally as *waqif's* belonging (Al Kabisi 2004; Yacoob *et al.*, 2015). Since *waqf* is an alms and a religious act, the asset surrendered must be in accordance with the sharia restriction. The asset should be *halal* and have a useful characteristic (Al Kabisi, 2004). The next element is *mauquf alaih* or beneficiaries. The beneficiary must be identified in the *waqf* deeds (Muzarie, 2010; Stibbard *et al.*, 2012). It can be a specific person or an institution, or a common group of people such as the poor. The fourth element is *al sighthab* or *waqf* deeds. *Waqf* deeds can be in verbal, but to avoid any dispute in the future, it will be better to have the deeds in written (Yacoob *et al.*, 2015). With these deeds, the ownership of the asset is transferred to Allah.

To complete those four elements, *waqif* has to appoint a person or institution to manage the *waqf* asset. This person/institution is known as *nazhir* (Usman, 2013; Abdullah *et al.*, 2017). *Waqif* also have the power to remove and appoint a new *nazhir* if he/she is not satisfied with the performance of the current *nazhir* (Stibbard *et al.*, 2012). Based on the *Waqf* Act Number 41, *nazhir* can be a person or a legal institution. The act stated that *nazhir* duties include administering the *waqf* assets, managing and developing the *waqf* assets according to its objective and its function, monitoring and protecting the assets, and reporting the whole process to Indonesian *Waqf* Board. For these duties, the appointed *nazhir* has a right to receive a management fee of up to 10% from the net result of managing and developing the *waqf* assets.

In the *waqf* system, it can be said that *nazhir* is the central point of *waqf* management. A *waqf* success story will depend on how the *nazhir* manage the *waqf* assets professionally to maximize the distribution of benefit to those defined in the *waqf* deeds. Along with this responsibility, there is a demand for transparency and accountability. As the form of this demand, *nazhir* has to prepare a report that can demonstrate that he/she/it has performed as expected or even beyond the expectation.

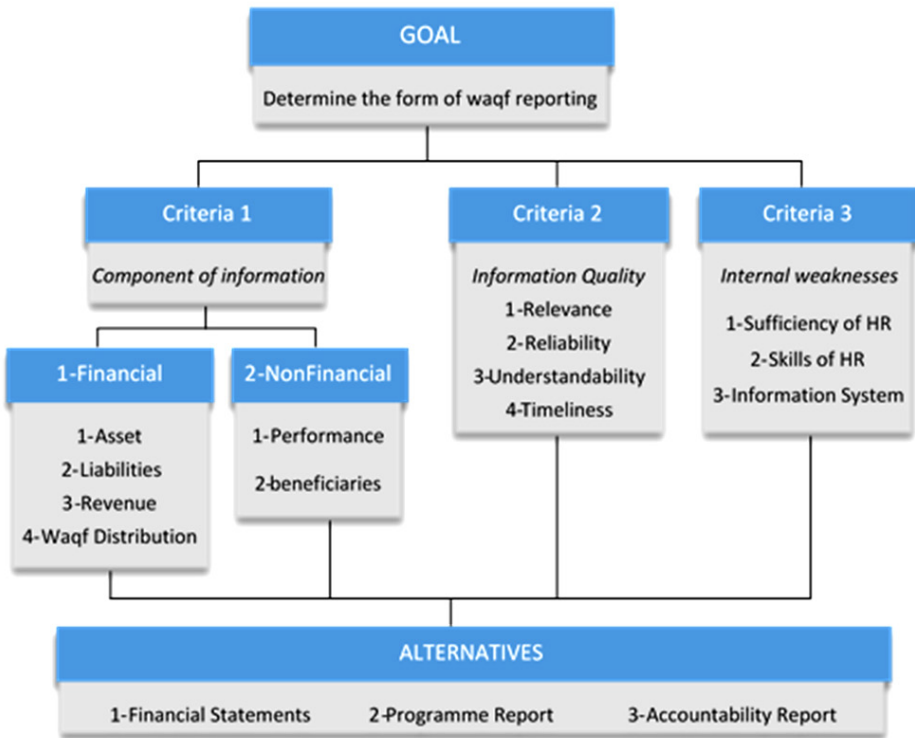
Methods

This study is qualitative research that is designed to explore the best reporting form for *waqf* institutions as their accountability representation. The angle of this research is *nazhir's* perspective, which leads to *waqf* institutions in Indonesia as the population since their main duties are collecting, managing, and reporting the *waqf*. Samples are selected using purposive sampling. To become a sample, the *waqf* institutions chosen must have collected *waqf* from Islamic community by offering certain projects either directly or through a financial institution.

The data uses in this study consist of primary and secondary data. The secondary data needed are financial statements, project reports, or other *waqf* reporting forms gathered either directly from the *waqf* institution or their websites and other social media. The primary data were obtained through validation interviews with *waqf* experts, and the questionnaires answered by respondents.

The method applied in this study is Analytic Network Process (ANP) method combined with Delphi method. ANP is a non-parametric and non-bayesian qualitative method used in the decision making process without any assumption about independence between elements in a network (Ascarya et al., 2014). This method consists of three stages. The first stage is developing a proposed model of *waqf* reporting based on the literature review. As discussed in the introduction part, the objective of this model is to determine the best reporting form as a representation of accountability through *nazhir's* perspective. There are three clusters of criteria in this model, i.e. component of information, the qualitative characteristic of a report, and the obstacle in the internal *waqf* institution. Each criterion will be divided into sub criteria.

Figure 1. Model to Determine the Form of *Waqf* Reporting



This model reviewed by two experts. They are practitioners who have worked for *waqf* institutions for several years. The purpose of this review is to test the validity and completeness of the model. Each of them was interviewed separately to give an examination and suggestion that they were used to improve the model.

The second stage is collecting data from respondents. After the review process, the final model was set up. Then a questionnaire based on the model was constructed and distributed to twelve *waqf* institutions in Jakarta, Bandung, Tangerang, and Tangerang Selatan. Only eight out of these twelve institutions submitted their answers in the time provided. The answers given by respondents became an input that will be processed further in the final stage.

The final stage is the ANP analysis. The data were processed through software to set the priority of reporting form and reporting elements that

conform to the accountability delivered by the *waqf* institution effeciently and effectively. The data process was conducted individually for each respondent. After the priority for each respondent had been found, they were united counting the geometric mean and rater agreement. The geometric mean was calculated to set the priority of all respondents. This result is considered as the final conclusion. It was accompanied by a rater agreement that measures the level of agreement among respondents for each priority. It should be noted that the conclusion might not be translated as agreed by all respondents.

Integration with Delphi method was conducted through the iteration process as one of the Delphi characteristic (Habibi *et al.*, 2014). The second and third stages of ANP were repeated once again. The questionnaire was submitted back to respondents accompanied by the summary of answers from all respondents. At this step, each respondent was asked to reexamine his answer and allowed to alter the first answer. Another characteristic of Delphi applied in this study is anonymous respondents. Although each respondent received a summary of other respondents, the names remained hidden to avoid the possibility that a respondent changes his answer in pressure to follow the opinion of other dominant or well-known respondents.

Results and Discussion

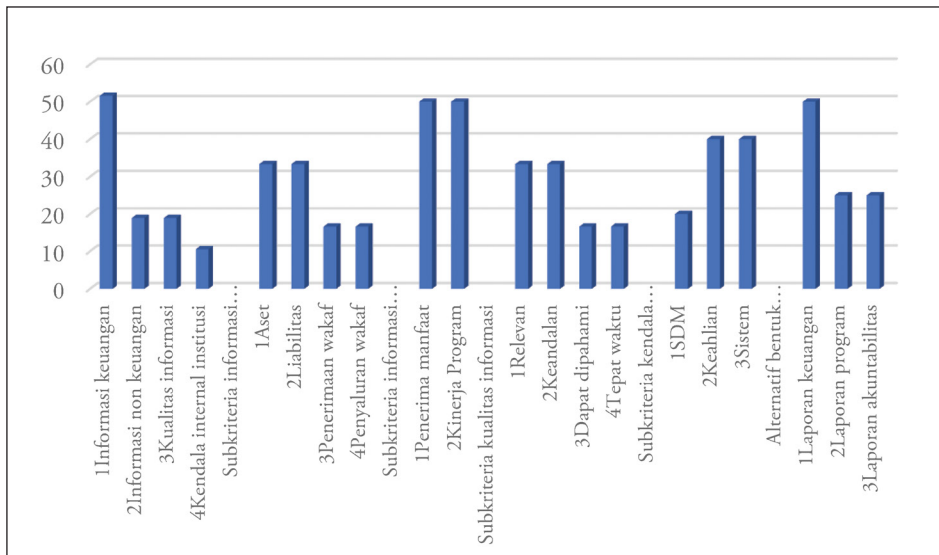
After receiving all the answer from the respondents, the data were analyzed for each respondent using a software. Priority for each cluster and alternatives then recorded for each respondent. Subsequently, geometric mean was manually calculated to unite all the respondent's opinion and set the priorities for every cluster and alternative from the *waqf* institution point of view. The result shows financial information as the most fundamental aspect in *waqf* reporting (46,73%), followed by information quality (27,72%), non-financial information (16%), and internal weakness in the institution (9,55%).

As for the financial information, the information about *waqf* asset and *waqf* distribution is assumed to be the top priorities elements in *waqf* reporting. While for the non-financial information, the information concerning beneficiaries is considered as important as program performance. In the cluster of information quality, respondents decided that the highest quality of information is determined by its reliability (39,96%), followed by timeliness (20,28%), relevance (19,98%), and understandability (19,76%). For the fourth sub criteria, the skills of human resources and the existence of an information

system are found as the most significant weaknesses that can cause a disruption to deliver the *waqf* reporting. Finally, all the reporting forms are recognized to have an equal degree of effectiveness and efficiency in delivering information about *waqf* accountability.

In the second round, questionnaires received in the first round are distributed once again along with the summary from all the respondents. This time the respondents have a right to reconsider their answers in the first round and change them when necessary. Three out of seven respondents alter their answers in some specific sub criteria, but generally, all respondents tend to be consistent with their first answers. These revisions then are being examined one more time by counting the geometric mean. The result can be seen in the following graph.

Figure 2. Priority Result of Reporting Form in 2nd Round



The graph shows slight changes in the criteria priority. Financial information is still in the top rank with an increase percentage (51,58%). Information quality and non-financial information are in the second place, each gained an equal percentage, which is 18,94%. The shifting in priority is also identified in financial information cluster. The information about *waqf* asset and its liabilities is now set as the most important, followed by *waqf*

revenue and *waqf* distribution. In information quality sub criteria, relevance and reliability become the priority, with understandability and timeliness in the next line. For this second round, the financial statement concludes as the most important form of reporting. Program report and accountability report consider as less important.

The respondents assume asset and liability as to the priority information. *Waqf* institutions record asset under their management as a permanent restricted net asset in conformity with Financial Accounting Standard Statement 45. They are still using this standard until the application of accounting standard for *waqf* starting in the next year. Concerning liabilities, most of the respondents interpret liabilities as debt that emerge because they loan amount of money to third parties. There is a lack of understanding about the liabilities that must be recorded by the institution. Training and further education might be needed to acknowledge this issue other financial information, i.e. revenue and distribution of *waqf* placed in the bottom position. *Waqf* revenue comes from productive *waqf* management. By the time of this research conducted, some of the institutions do not have productive *waqf* yet. They are still trying to develop productive *waqf* programmes, so there is no revenue received as a source of fund in *waqf* management activity. As for the non-financial information, beneficiaries and programme performance considered as equally important. From all of the information, four types of information which are an asset, *waqf* distribution, beneficiaries, and programme performance have been delivered periodically by *waqf* institution either through the formal report or informal media.

For *waqf* institution, reliability and relevance are the determinant elements in the information quality. Reliability can be obtained if the information delivered by the *waqf* institution possesses the elements of completeness, neutrality, and free from error. *Waqf* institution must assure that all the transactions in the *waqf* management processed had been recorded, the transactions are recorded in the accurate amount, and information provided is unbiased. Other two qualities, i.e. understandability and timeliness, assumed to be equally important to support the presentation of high-quality information. High quality information will increase the trust of stakeholders.

In achieving accountability, there are two main obstacles to be solved by *waqf* institutions. The first, is the existence of an integrated system. The system that can track the whole process occurred in *waqf* institution from marketing, collecting, managing, distributing, and reporting will build up the

accountability and transparency. However, developing the system might need an allocation of quite a lot of funds which is perhaps not available yet in some of the institutions. Second, human skills. Each process in the *waqf* institution needs a specific skill. For example, the financial reports for *waqf* institution need to be prepared by a person who has the skill in sharia accounting. The skills in investment and business are also required to manage productive *waqf*. As for the adequacy of human resources, it is concluded to be insignificant since most of the *waqf* institutions in the meantime operate smoothly with a small amount of staff.

As for the form of *waqf* reporting, it is concluded that financial statements are the most important. Previous research also found in line with this result. Institutions are considered to be accountable if they periodically deliver financial statements that prepared in conformity with the standard (Ihsan *et al.*, 2011; Yacoob *et al.*, 2015). The behaviour of the *waqf* institution tends to disclose information only to fulfill the obligation required in the standard (Yasmin *et al.*, 2014; Yasmin *et al.*, 2017). But this behaviour is contradicted with donor's perspective, which emphasizes on more details and specific program report (Connoly, *et al.*, 2013). Financial statements are important, but they are less understandable and relevant for donors. Donors perceive programme report to be more useful and have the ability to describe the effectiveness of the programme conducted. Since the quality of understandability put behind by the *waqf* institution, the report they provided might not as useful as it is intended.

Conclusion

Waqf has a substantial potency that can be explored further. Participation from the community to donate is expected to increase because of the significant numbers of *waqf* institution and the raise of attention towards *waqf* from the government, practitioners, and academician. However, trust towards the *waqf* institution as the leading player in managing the *waqf* needs to be enhanced. Accountability is a must factor in obtaining the trust, with the report as its medium. Respondents have concluded that the financial statements can act as the best representation of accountability in *waqf* management. The main issue regarding accountability reporting in *waqf* institution is the size of *waqf* institution relatively small, with minimal human resources and skills, also lack supported information system. Based on this condition, it will be hard for the *waqf* institutions to apply to the *waqf* standard PSAK 112 since the

standard refers to the accounting for public companies which have abundant resources. To address this problem, the Indonesian *Waqf* Board as the highest authority in *waqf* management in Indonesia can construct the accounting guidance based on PSAK 112 with SAK ETAP as a reference. This down to earth guidance hopefully will make the standard more applicable by the *waqf* institutions. The accounting guidance along with PSAK 112 as its fundamental must be introduced intensively to all *waqf* institutions. Continuous education and certification might help the *waqf* institutions to gain a comprehensive understanding of the accountability reporting. Also, a helpdesk through social media or other media that can be accessed 24 hours by the *waqf* institution should be developed. This service can provide great help for the *waqf* institutions whenever a problem arises in their effort to apply to the accounting standard or other reports in the future.

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