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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

AN EXPLORATORY STUDY OF *WAQF*
ACCOUNTING AND MANAGEMENT IN
INDONESIAN *WAQF* INSTITUTIONS: THE CASES
OF DOMPET DHUAFA AND UII *WAQF*
FOUNDATIONS

BY

HIDAYATUL IHSAN

INTERNATIONAL ISLAMIC UNIVERSITY
MALAYSIA

2007

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OF DOMPET DHUAFA AND UII *WAQF*
FOUNDATIONS

BY

HIDAYATUL IHSAN

A dissertation submitted in partial fulfilment of the
requirements for the degree of Master of Science
(Accounting)

Kulliyyah of Economics and Management Sciences
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ABSTRACT

Waqf accounting is important as accounting is a means to discharge accountability of *mutawallī* to many parties such as *wāqif*, *waqf* board, government and the *ummah*. Besides this, accounting is one of the important elements for the betterment of *waqf* management since it will enable *mutawallis* to measure their performance in managing *waqf*. This study examines accounting and management practices in two Indonesian *waqf* institutions. It intends to seek evidence with regard to how *mutawallis* discharge their accountability. Evidences are gathered through case study on two *waqf* institutions in Indonesia i.e. Dompot Dhuafa and Badan Wakaf Universitas Islam Indonesia (UII *Waqf* Foundation). Dompot Dhuafa represents the new *waqf* management which is administering cash *waqf*, while UII *Waqf* Foundation is an old *waqf* institution which provides higher education through *waqf* assets in Indonesia. Data were collected through various methods i.e. interviews, document reviews and direct observations. Furthermore, a cross-case analysis is used to analyze data which gives a view of management and accounting practices in the two *waqf* institutions. The findings show that there is different level of achievement in *waqf* management between Dompot Dhuafa and UII *Waqf* Foundation. Furthermore, the two *waqf* institutions vary with regard to their transparency and accountability in managing *waqf* assets. This paper concludes with a proposal for the improvement of accounting and management practices of *waqf*.

ملخص البحث

تعتبر محاسبة المؤسسات الوقفية مهمة جداً، حيث أن المحاسبة تمكن المتولي من الوفاء بالمسؤوليات المنوطة به تجاه العديد من الجهات ذات العلاقة مثل: (الواقف، مجلس إدارة الأوقاف، الحكومة، و الأمة بشكل عام). تعتبر المحاسبة أحد أهم العناصر المساعدة في تحسين أداء إدارة الأوقاف. حيث أن المحاسبة سوف تمكن المتولين على الأوقاف من تقويم أدائهم في إدارة الأوقاف. هذه الدراسة تهدف إلى اختبار الممارسات المحاسبية و الإدارية في مؤسستين وقفيتين في أندونيسيا، والجدير بالذكر، أن هذه الدراسة تهدف إلى معرفة كيف يقوم المتولي بالوفاء بمسؤوليته. تم استخدام طريقة دراسة حالة للمؤسستين الوقفيتين التاليتين: (دومبيت ضعفاء و بادان وقف- الجامعة الإسلامية بأندونيسيا- وقف تمويل). تمثل المؤسسه الأولى (دومبيت ضعفاء) تمثل الإدارة الحديثة للأوقاف (تتعامل مع الأوقاف النقدية) بينما المؤسسة الثانية (بادان وقف- الجامعة الإسلامية بأندونيسيا) يمثل الإدارة التقليدية للأوقاف (تعمل في مجال التعليم من خلال إيرادات الأصول الوقفية في أندونيسيا. في هذه الدراسة تم اتباع ثلاث طرق مختلفة لجمع البيانات و هي كالتالي: المقابلة الشخصية و مراجعة المستندات و الملاحظة المباشرة). فيما يتعلق بتحليل البيانات، لقد تم استخدام طريقة التحليل لأكثر من حالة، طريقة التحليل هذه سوف تعطي تصورا واضحا حول الممارسات الإدارية و المحاسبية في كلا المؤسستين الوقفيتين الخاضعتين لهذه الدراسة. أظهرت النتائج لهذه الدراسة و جود اختلاف في مستوى المسؤولية للمتولي في المؤسستين الوقفيتين. بالإضافة إلى ذلك أظهرت النتائج و جود اختلاف بالنسبة لمستوى الشفافية و المسؤولية المطبق في المؤسستين الخاضعتين للدراسة. خُتِمت هذه الدراسة بمقترحات لتطوير و تحسين الممارسات المحاسبية و الإدارية في المؤسسات الوقفية في أندونيسيا.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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Management Sciences

DECLARATION PAGE

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Hidayatul Ihsan

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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**AN EXPLORATORY STUDY OF *WAQF* ACCOUNTING AND
MANAGEMENT IN INDONESIAN *WAQF* INSTITUTIONS:
THE CASES OF DOMPET DHUAFA AND UII *WAQF* FOUNDATIONS**

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Dedicated

To

My beloved parents, my family and the Muslim *Ummah*

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CHAPTER ONE

INTRODUCTION

1.1. *WAQF*: THE PERPETUAL CHARITY

The word *waqf* (plural: *awqāf*) is derived from an Arabic word literally meaning hold or prohibition. Kahf (2003) defines *waqf* as "...holding certain property and preserving it for the confined benefit of philanthropy and prohibiting any use or disposition of it outside its specific objective". Basically, there is no specific term for *waqf* to be found in the Qur'ān. However, the indication of *waqf* can be found in the following verse: "By no means shall ye attain righteousness unless ye give (freely) of that which ye love: and whatever ye give, Allāh knoweth it well" (Qur'ān, Āl Imrān: 92).

In addition, many scholars agree that *waqf* can be regarded as *sadaqah jariyyah* (continued charity) which can be found in a *hadīth*¹. Later on, the *waqf* term is mostly used to explain an activity which indicates giving away of property for religious purposes, i.e. to seek the pleasure of Allāh.

The objective of *waqf* in Islam is to establish the socio-economic welfare among the Muslim society by making the "haves" realize that they have to share their wealth with the needy, poor, and helpless (Qasmi, 2002). Allāh says: "And in their wealth there is a due share for the beggar and the deprived" (Qur'ān, Al-Zariyat: 19).

¹ Abu Huraira (Allāh be pleased with him) reported Allāh's Messenger (may peace be upon him) as saying: When a man dies, his acts come to an end, but three, recurring charity, or knowledge (by which people) benefit, or a pious son, who prays for him (for the deceased) <<http://www.salafipublications.com/sps/smm/>> (accessed 17 October 2006).

In Islam, *waqf* is one of the principle means to alleviate the poverty problem in the society besides *zakat* (compulsory charity) and *sadaqah* (optional charity). *Waqf* can be an effective system for poverty alleviation by improving non-income aspect such as health, education etc as well as increasing access to physical facilities, resources and employment (Sadeq, 2002). Therefore, *waqf* activities became part of Muslim's life in the past.

It is undeniable that the role of *waqf* in the past was very extensive in promoting the social welfare of *ummah*². After the period of Prophet Muhammad (PBUH) and his successors, many *waqf* assets were created by the rich kings and wealthy Muslims to be endowed for the society. For instance, Al-Azhar mosque which is still being used today was one of the *waqf* properties from the Fatimid Caliphate³. Whilst, the highest stage of *waqf* activity was achieved during the Ottoman Empire⁴.

However, eventually, *waqf* became less popular among Muslim society. Moreover, the impact of colonialism among Muslim countries has worsen the situation. Even though the *waqf* activities are still active, they are not as widespread as they used to be. In some Muslim countries, *waqf* properties have been neglected. Therefore, it is not surprising if some of the *waqf* properties are not recorded properly or some have even gone missing.

The awareness of revitalization of *waqf* institutions had just emerged amongst Muslim countries in the last decade. For instance, the government of Egypt (Pioppi, 2004), Sri Lanka (Marsoof, 2004), Sudan (Mohsin, 2005), and Indonesia (Masyita, Tasrif and Talaga, 2005; Prihatini, Hasanah and Wirdyaningsih, 2005) realized the

² *Ummah* is Arabic means community or nation <<http://en.wikipedia.org/wiki/Ummah>> (accessed 8 August 2006).

³ Fatimid Caliphate is the Ismaili Shiite dynasty that ruled North Africa from A.D. 909 to 1171

⁴ Ottoman Empire (Ottoman Turkish) existed from [1299](#) to [1922](#)

need for *waqf* revival in order to create a better society. They believed that *waqf* can be an effective institution for poverty alleviation which is currently faced by Muslim society (Sadeq, 2002). Therefore, those governments tried to re-administer *waqf* institutions as a part of their endeavors to promote socio economic development. Among those Muslim countries, the Indonesian government has made major reforms in revitalization of *waqf* institutions through the enactment of new *waqf* act to regulate *waqf* institutions in Indonesia.

1.2. WAQF EXPERIENCES IN INDONESIA: AN OVERVIEW

The history of *waqf* in Indonesia is as old as Islam in Indonesia. It is noted by Gofar (2002) that *waqf* activities had been known among Muslim in Indonesia in the middle of the 13th century. Even though Indonesia had been occupied by Dutch and Japanese for more than three hundred years, *waqf* activities still went on during the colonial period. Even, the Dutch government issued some regulations to regulate *waqf* activities at that time. Although it was established a very long time ago, the role of *waqf* in developing Muslim society in Indonesia has not been optimal. There are many *waqf* assets which are not properly managed by the *mutawalli*.⁵ Most of the *mutawalli* are not creative in managing *waqf* assets and do not try to develop *waqf* properties in order to improve the quality of Muslims society.

Generally, *waqf* assets in Indonesia were created either by individual or communal (Gofar, 2002). Individual *waqfs* were established by the rich, while communal *waqfs* were created by sharing the contribution amongst several people. Even though there are a lot of *waqf* assets can be found in Indonesia, only limited

⁵ *Mutawalli* is *waqf* manager, sometimes also called *nazir* or, these terms can be used interchangeably.

numbers of them are productive. Mostly, *waqf* assets are addressed for religious purposes such as mosques and religious schools.

Over the years, *waqf* in Indonesia was regulated by various regulations. Many *waqf* regulations have been enacted and changed. However, none of those regulations were really effective in regulating *waqf* activity in Indonesia. In other words, previous *waqf* regulations did not stimulate *waqf* institutions to redress the major economic and social problems posed to the entire society in Indonesia.

A serious attempt in revitalization *waqf* institutions has been made in the late 2004 when the government enacted of new *waqf* act namely The Act No 41/2004 on *Waqf*⁶. The current act is more sophisticated whereby it recommends the establishment of an independent body to regulate *waqf* institutions in Indonesia, namely “Badan Wakaf Indonesia” (Indonesian *Waqf* Board) as well as introducing a new model of *waqf* in Indonesia i.e. cash *waqf* which has been growing rapidly recently (Prihatini et al., 2005).

By and large, previous studies on *waqf* in Indonesia focused on examining either regulation or management aspects, but were silent on accounting. In fact, *mutawallis* have to show their accountability to the public through reports which will inform how they have used and managed *waqf* assets. Given these facts, an initial study needs to be undertaken on the issue of *waqf* accounting, particularly in Indonesia. This study is one such exploratory attempt.

1.3. WAQF AND ACCOUNTABILITY

The theoretical frame work for *waqf* accounting has not been well-established, however, the general principle of accounting for *waqf* can be referred to the following

⁶ The original name of this act is Undang-undang No 41 tahun 2004 tentang wakaf

Qur'ānic verse i.e.: “O you who believe, fulfill all obligations” (Al Ma'idah:1). In this sense, accounting for *waqf* becomes important as there is a contract between *mutawalli* and *wāqif*⁷ where the former party is accountable for *waqf* assets entrusted by the latter party. In other words, accounting is a means to discharge accountability of *mutawalli*. Due to the fact that *waqf* asset is meant for public benefit; therefore the scope of accountability of *mutawalli* will be different than corporate manager, whereby they should be responsible to various stakeholders such as *wāqif*, *waqf* board, *waqf* employee, regulator, beneficiaries, and community in large.

In the charity context, Cordery and Morley (2005) classify the accountability of charity managers into contractual and communal accountability. Contractual accountability is more likely in terms of fiscal, process and program accountability to the government and grant-making institutions. Whilst communal accountability is more likely to be provided in a culture with high levels of trust and it can be more informal and unstructured compared to contractual accountability.

Nevertheless, the accountability of *mutawalli* can be seen as Islamic accountability which is later on named dual accountability (Shahul, 2000). Dual accountability means that as Allāh's *khalifah*,⁸ human beings are being accountable for all resources entrusted; besides they should fulfill any contract made among them. Indeed, this kind of accountability is more appropriate to *waqf* since *waqf* deed is based on religious motivation and it involves the public interest.

Modifying Shahul's theory pertaining to dual accountability, Hisham (2006) draws the model of *waqf* accountability as follows:

⁷ *Wāqif* is *waqf* founder

⁸ *Khalifah* : vicegerent

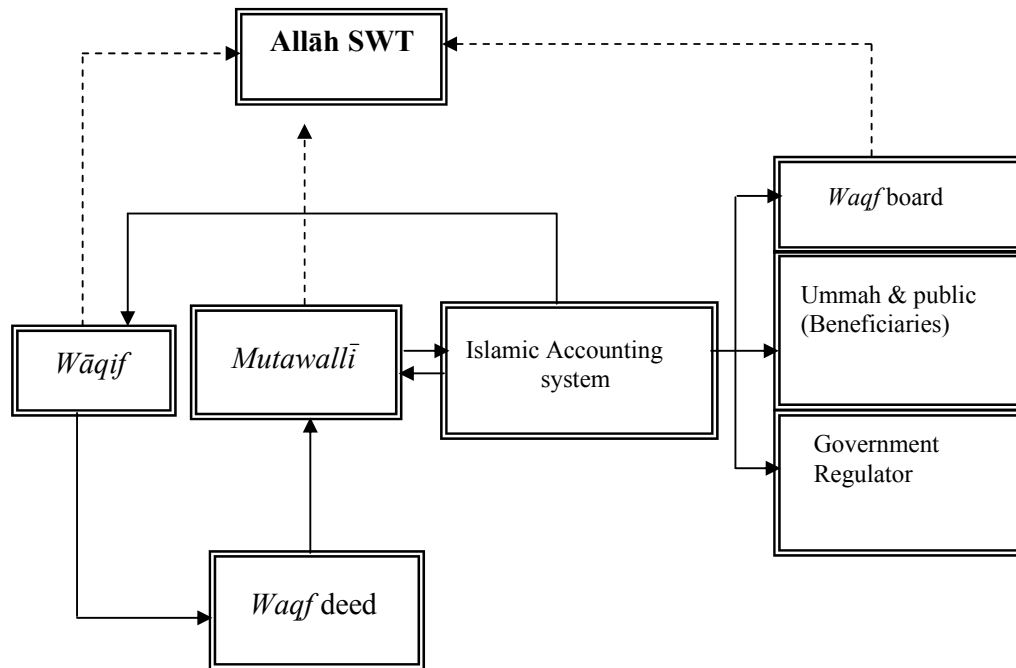


Figure 1.1: The *waqf* accountability Model (Modified from Hisham, 2006)

From the above figure, it can be seen that the highest accountability is to Allāh SWT. *Mutawallī*, *wāqif*, *waqf* board and regulators should discharge their accountability to Allāh. In this respect, accountability to Allāh can be discharged through the fulfillment of all Allāh's commands and avoidance of His prohibitions. For instance, in managing *waqf* assets, *mutawallī* cannot violate *sharī'ah* rules. At the same time, *mutawallī* should show his accountability in fulfilling *waqf* objective as *wāqif* wishes. Besides, *mutawallī* has to ensure that *waqf* will contribute to the betterment of Muslim society. Therefore, a clear reporting from *mutawallī* will enable the user to see whether he has fulfilled his accountability. The report will also portray how compliant he is to the *sharī'ah* rules in managing *waqf* assets. Those objectives can only be achieved through Islamic accounting which has its own specific characteristics.

Shahul and Yaya (2003) are of the view that the characteristic of Islamic Accounting focuses on two aspects namely financial measurement and disclosure presentation. Although these measurements are mostly used for profit organization, to some extent it also can be applied to non profit organization such as *waqf* institutions in different aspect. Therefore, with regard to financial measurement, *waqf* accounting can adopt current valuation method for measurement purposes. Shahul and Yaya argued that the current value method is appropriate for measurement since this method encourages any company to disclose the truth. Although the purpose of valuation is not similar to business enterprise i.e. for *zakat* calculation, this method will help *mutawalli* in decision making for *waqf* financing and investment. In addition, the current value will be more favorable since there is a new model of *waqf* i.e. cash *waqf*. Hence, the current value will reflect how much money is being collected, as well as how much is being invested and the maturity value of the investment.

Beside financial measurement, disclosure and presentation aspect are also crucial for *waqf* accounting. This is clear because *mutawalli* should provide report regarding the contribution of *waqf* institution to Muslim society and their programs in solving the problems of the *ummah*. Moreover, *mutawallis* should report *waqf* investments in case they undertook investments for *waqf* institutions.

The abovementioned component of accounting is in line with Cordery and Morley (2005) when they suggest accountability should consider both qualitative and quantitative reporting. Qualitative reporting can be in terms of financial performance of *waqf* institution, i.e. how much is the cost expensed or how much money is being invested to develop *waqf* assets. Whereas quantitative reporting is in terms of whether any objectives are achieved and how is the progress of *waqf* programs.

Thus, adopting Hayes model of accountability, Cordery and Morley (2005) propose the model of charity reporting as follows:

- ◆ Fiscal accountability i.e. in terms of money has been spent according to the appropriate rules
- ◆ Process accountability that is to ensure that proper procedures has been followed to provide value for money
- ◆ Program accountability i.e. to ensure that *waqf* institution is effective in achieving the objective of *waqf*
- ◆ Accountability for priorities i.e. fulfilling user needs appropriately.

For the purpose of *waqf* reporting, the above elements can be adapted, since the nature of charity and *waqf* has some similarities⁹. In fact, the current charity accounting standards in the UK i.e. SORP 2005 has provided clear guidelines of how charity reporting should be prepared. Further discussion relating SORP 2005 and how it can fit into *waqf* institution, will be provided in chapter three.

1.4. AIMS OF THE STUDY

This study is conducted to achieve the objectives as follows:

1. To explore how *awqāf* are being organized and managed in Indonesia
2. To investigate the accounting system, and *waqf* reporting in Indonesian *waqf* institutions
3. To investigate how *waqf* institutions in Indonesia disseminate their reporting to the users.

⁹ It should be noted the similarities are in terms of endowment activities, not in terms of religious purposes.

1.5. MOTIVATION OF THE STUDY

A major reform in *waqf* regulations in Indonesia as well as substantial attention from the government has motivated the researcher to carry out an exploratory study pertaining to *waqf* accounting in Indonesia. The researcher believes that accounting is one of the important elements for the betterment of *waqf* management. Therefore, this study would contribute to the development of *waqf* institutions, particularly in Indonesia.

1.6. CONTRIBUTION OF THE STUDY

As an initial study in *waqf* accounting area, the researcher expects this study will give some contributions to the betterment of *waqf* institution such as to:

- Provide evidence in addressing the issue of *waqf* accounting and management in Indonesia
- Encourage accounting regulators to pay attention to *waqf* accounting as well as to develop accounting standards for *waqf* in Indonesia.

1.7. THE ORGANIZATION OF THE DISSERTATION

The structure of the dissertation will be as follows:

Chapter 1: Introduction will cover background, motivations of the study, research objective and the contributions of the study.

Chapter 2: *Waqf* experiences in some Muslim countries and Indonesia. This chapter will review previous studies on *waqf* in some Muslim countries as well as its experiences in Indonesia

Chapter 3: Previous studies on *waqf* Accounting and Review of SORP 2005. In this chapter, the previous studies in *waqf* accounting will be highlighted and

followed by the review of charity accounting standard in the UK i.e. SORP 2005

Chapter 4: Research Method, covering research design data collection and data analysis.

Chapter 5: Findings and analysis. In this chapter, findings will be analyzed and discussed

Chapter 6: Recommended management and accounting practices for *waqf*

Chapter 7: Conclusions and limitations of the study

The relationship of each chapter can be drawn into the following figure: